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**HEALTH, EDUCATION, AND WELFARE**  
SOCIAL SECURITY ADMINISTRATION

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# **REPORTS BOOK**

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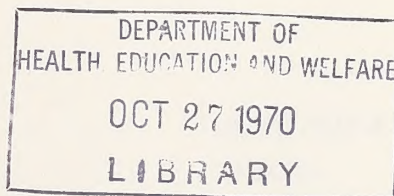
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**COMMITTEE ON ECONOMIC SECURITY**

**ADVISORY COUNCILS**

**AND**

**OTHER SELECT REPORTS, STUDIES, AND PRESIDENTIAL  
MESSAGES RELATING TO THE SOCIAL SECURITY ACT**



**DEPARTMENT OF  
HEALTH, EDUCATION, AND WELFARE  
SOCIAL SECURITY ADMINISTRATION**







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**REPORT  
TO THE PRESIDENT  
OF THE  
COMMITTEE ON ECONOMIC  
SECURITY**

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## LETTER OF TRANSMITTAL

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WASHINGTON, D. C., *January 15, 1935.*

The PRESIDENT,  
*The White House.*

DEAR MR. PRESIDENT: In your message of June 8, 1934, to the Congress you directed attention to certain fundamental objectives in the great task of reconstruction; an indistinguishable and essential aspect of the immediate task of recovery. You stated, in language that we cannot improve upon:

Our task of reconstruction does not require the creation of new and strange values. It is rather the finding of the way once more to known, but to some degree forgotten, ideals and values. If the means and details are in some instances new, the objectives are as permanent as human nature.

Among our objectives I place the security of the men, women, and children of the Nation first.

This security for the individual and for the family concerns itself primarily with three factors. People want decent homes to live in; they want to locate them where they can engage in productive work; and they want some safeguard against misfortunes which cannot be wholly eliminated in this man-made world of ours.

Subsequent to this message you created, by Executive order, this Committee on Economic Security to make recommendations to you on the third of the aspects of security which you outlined—that of safeguards “against misfortunes which cannot be wholly eliminated in this man-made world of ours.”

In the brief time that has intervened, we have sought to analyze the hazards against which special measures of security are necessary, and have tried to bring to bear upon them the world experience with measures designed as safeguards against these hazards. We have analyzed all proposed safeguards of this kind which have received serious consideration in this country. On the basis of all these considerations, we have tried to formulate a program which will represent at least a substantial beginning toward the realization of the objective you presented.

We have had in our employ a small staff, which included some of the outstanding experts in this field. This staff has prepared many valuable studies giving the factual background, summarizing American and foreign experience, presenting actuarial calculations, and making detailed suggestions for legislation and administration.

We have also had the assistance of the Technical Board on Economic Security, provided for in your Executive order, and composed of 20 people in the Government service, who have special interest and knowledge in some or all aspects of the problem you directed us to study. The Technical Board, functioning as a group, through subcommittees, and as individuals, has aided the staff and the committee during the entire investigation. Many of the members have devoted much time to this work and have made very important contributions, indeed. Plus these, many other people in the Government service have unstintingly aided the committee with special problems on which their advice and assistance has been sought.

The Advisory Council on Economic Security, appointed by you and constituted of citizens outside of the Government service, representing employers, employees, and the general public, has assisted the committee in weighing the proposals developed by the staff and the Technical Board, and in arriving at a judgment as to their practicability. All members of the Council were people who have important private responsibilities, and many of them also other public duties, but they took time to come to Washington on four separate occasions for meetings extending over several days.

In addition to the Council, this committee found it advisable to create seven other advisory groups: A committee of actuarial consultants, a medical advisory board, a dental advisory committee, a hospital advisory committee, a public-health advisory committee, a child welfare committee, and an advisory committee on employment and relief. All of these committees have contributed suggestions which have been incorporated in this report. The medical advisory board, the dental advisory committee, and the hospital advisory committee are still continuing their consideration of health insurance, but joined with the public health advisory committee in endorsement of the program for extended public-health services which we recommend.

Finally, many hundreds of citizens and organizations in all parts of the country have contributed ideas and suggestions. Three hundred interested citizens, representing practically every State, at their own expense, attended the National Conference on Economic Security, held in Washington on November 14, which was productive of many very good suggestions.

The responsibility for the recommendations we offer is our own. As was inevitable in view of the wide differences of opinion which prevail regarding the best methods of providing protection against the hazards leading to destitution and dependency, we could not accept all of the advice and suggestions offered, but it was distinctly helpful to have all points of view presented and considered.

To all who assisted us or offered suggestions, we are deeply grateful.

In this report we briefly sketch the need for additional safeguards against "the major hazards and vicissitudes of life." We also present recommendations for making a beginning in the development of safeguards against these hazards, and with this report submit drafts of bills to give effect to these recommendations. We realize that some of the measures we recommend are experimental and, like nearly all pioneering legislation, will, in course of time, have to be extended and modified. They represent, however, our best judgment as to the steps which ought to be taken immediately toward the realization of what you termed in your recent message to the Congress "the ambition of the individual to obtain for him and his a proper security, a reasonable leisure, and a decent living throughout life."

Respectfully submitted.

FRANCES PERKINS,  
*Secretary of Labor (Chairman).*

HENRY MORGENTHAU, Jr.,  
*Secretary of the Treasury.*

HOMER CUMMINGS,  
*Attorney General.*

HENRY A. WALLACE,  
*Secretary of Agriculture.*

HARRY L. HOPKINS,  
*Federal Emergency Relief Administrator.*





# REPORT OF THE COMMITTEE ON ECONOMIC SECURITY

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## NEED FOR SECURITY

The need of the people of this country for "some safeguard against misfortunes which cannot be wholly eliminated in this man-made world of ours" is tragically apparent at this time, when 18,000,000 people, including children and aged, are dependent upon emergency relief for their subsistence and approximately 10,000,000 workers have no employment other than relief work. Many millions more have lost their entire savings, and there has occurred a very great decrease in earnings. The ravages of probably the worst depression of all time have been accentuated by greater urbanization, with the consequent total dependence of a majority of our people on their earnings in industry.

As progress is made toward recovery, this insecurity will be lessened, but it is not apparent that even in the "normal times" of the prosperous twenties, a large part of our population had little security. From the best estimates which are obtainable, it appears that in the years 1922 to 1929 there was an average unemployment of 8 percent among our industrial workers. In the best year of this period, the number of the unemployed averaged somewhat less than 1,500,000.

Unemployment is but one of many misfortunes which often result in destitution. In the slack year of 1933, 14,500 persons were fatally injured in American industry and 55,000 sustained some permanent injury. Nonindustrial accidents exacted a much greater toll. On the average, 2.25 percent of all industrial workers are at all times incapacitated from work by reason of illness. Each year above one-eighth of all workers suffer one or more illnesses which disable them for a week, and the percentage of the families in which some member is seriously ill is much greater. In urban families of low incomes, above one-fifth each year have expenditures for medical and related care of above \$100 and many have sickness bills of above one-fourth and even one-half of their entire family income. A relatively small but not insignificant number of workers are each year prematurely invalided, and 8 percent of all workers are physically handicapped.

At least one-third of all our people, upon reaching old age, are dependent upon others for support. Less than 10 percent leave an estate upon death of sufficient size to be probated.

There is insecurity in every stage of life.

For the largest group, the people in middle years, who carry the burden of current production from which all must live, the hazards with which they are confronted threaten not only their own economic independence but the welfare of their dependents.

For those now old, insecurity is doubly tragic, because they are beyond the productive period. Old age comes to everyone who does not die prematurely and is a misfortune only if there is insufficient income to provide for the remaining years of life. With a rapidly increasing number and percentage of the aged, and the impairment and loss of savings, this country faces, in the next decades, an even greater old-age security problem than that with which it is already confronted.

For those at the other end of the life cycle—the children—dependence is normal, and security is best provided through their families. That security is often lacking. Not only do the children under 16 constitute above 40 percent of all people now on relief, as compared to 28 percent in the entire population, but at all times there are several millions in need of special measures of protection. Some of these need individual attention to restore, as fully as may be, lives already impaired. More of them—those who have been deprived of a father's support—need only financial aid which will make it possible for their mothers to continue to give them normal family care.

Most of the hazards against which safeguards must be provided are similar in that they involve loss of earnings. When earnings cease, dependency is not far off for a large percentage of our people. In 1929, at the peak of the stock-market boom, the average per capita income of all salaried employees at work was only \$1,475. Eighteen million gainfully employed persons, constituting 44 percent of all those gainfully occupied, exclusive of farmers, had annual earnings of less than \$1,000; 28,000,000, or nearly 70 percent, earnings of less than \$1,500. Many people lived in straitened circumstances at the height of prosperity; a considerable number live in chronic want. Throughout the twenties, the number of people dependent upon private and public charity steadily increased.

With the depression, the scant margin of safety of many others has disappeared. The average earnings of all wage earners at work dropped from \$1,475 in 1929 to \$1,199 in 1932. Since then, there has been considerable recovery, but even for many who are fully employed there is no margin for contingencies.

The one almost all-embracing measure of security is an assured income. A program of economic security, as we vision it, must have as its primary aim the assurance of an adequate income to each human being in childhood, youth, middle age, or old age—in sickness or in health. It must provide safeguards against all of the hazards leading to destitution and dependency.

A piecemeal approach is dictated by practical considerations, but the broad objectives should never be forgotten. Whatever measures are deemed immediately expedient should be so designed that they can be embodied in the complete program which we must have ere long.

To delay until it is opportune to set up a complete program will probably mean holding up action until it is too late to act. A substantial beginning should be made now in the development of the safeguards which are so manifestly needed for individual security. As stated in the message of June 8, these represent not "a change in values" but "rather a return to values lost in the course of our economic development and expansion." "The road to these values is the way to progress." We will not "rest content until we have done our utmost to move forward on that road."

#### SUMMARY OF MAJOR RECOMMENDATIONS

In this report we discuss briefly all aspects of the problem of economic security for the individual. On many phases our studies enable us only to call attention to the importance of not neglecting these aspects of economic security and to give endorsement to measures and policies which have been or should be worked out in detail by other agencies of the Government.

Apart from these phases of a complete program for economic security with which we deal only sketchily, we present the following major recommendations:

##### EMPLOYMENT ASSURANCE

Since most people must live by work, the first objective in a program of economic security must be maximum employment. As the major contribution of the Federal Government in providing a safeguard against unemployment we suggest employment assurance—the stimulation of private employment and the provision of public employment for those able-bodied workers whom industry cannot employ at a given time. Public-work programs are most necessary in periods of severe depression, but may be needed in normal times, as well, to help meet the problems of stranded communities and overmanned or declining industries. To avoid the evils of hastily

planned emergency work, public employment should be planned in advance and coordinated with the construction and developmental policies of the Government and with the State and local public-works projects.

We regard work as preferable to other forms of relief where possible. While we favor unemployment compensation in cash, we believe that it should be provided for limited periods on a contractual basis and without governmental subsidies. Public funds should be devoted to providing work rather than to introduce a relief element into what should be strictly an insurance system.

#### UNEMPLOYMENT COMPENSATION

Unemployment compensation, as we conceive it, is a front line of defense, especially valuable for those who are ordinarily steadily employed, but very beneficial also in maintaining purchasing power. While it will not directly benefit those now unemployed until they are reabsorbed in industry, it should be instituted at the earliest possible date to increase the security of all who are employed.

We believe that the States should administer unemployment compensation, assisted and guided by the Federal Government. We recommend as essential the imposition of a uniform pay-roll tax against which credits shall be allowed to industries in States that shall have passed unemployment compensation laws. Through such a uniform pay-roll tax it will be possible to remove the unfair competitive advantage that employers operating in States which have failed to adopt a compensation system enjoy over employers operating in States which give such protection to their wage earners.

We believe also that it is essential that the Federal Government assume responsibility for safeguarding, investing, and liquidating all reserve funds, in order that these reserves may be utilized to promote economic stability and to avoid dangers inherent in their uncontrolled investment and liquidation. We believe, further, that the Federal act should require high administrative standards, but should leave wide latitude to the States in other respects, as we deem experience very necessary with particular provisions of unemployment compensation laws in order to conclude what types are most practicable in this country.

#### OLD-AGE SECURITY

To meet the problem of security for the aged we suggest as complementary measures noncontributory old-age pensions, compulsory contributory annuities, and voluntary contributory annuities, all to be applicable on retirement at age 65 or over.

Only noncontributory old-age pensions will meet the situation of those who are now old and have no means of support. Laws for



the payment of old-age pensions on a needs basis are in force in more than half of all States and should be enacted everywhere. Because most of the dependent aged are now on relief lists and derive their support principally from the Federal Government and many of the States cannot assume the financial burden of pensions unaided, we recommend that the Federal Government pay one-half the cost of old-age pensions but not more than \$15 per month for any individual.

The satisfactory way of providing for the old age of those now young is a contributory system of old-age annuities. This will enable younger workers, with matching contributions from their employers, to build up a more adequate old-age protection than it is possible to achieve with noncontributory pensions based upon a means test. To launch such a system we deem it necessary that workers who are now middle-aged or older and who, therefore, cannot in the few remaining years of their industrial life accumulate a substantial reserve be, nevertheless, paid reasonably adequate annuities upon retirement. These Government contributions to augment earned annuities may either take the form of assistance under old age pension laws on a more liberal basis than in the case of persons who have made no contributions or by a Government subsidy to the contributory annuity system itself. A portion of these particular annuities will come out of Government funds, but because receipts from contributions will in the early years greatly exceed annuity payments, it will not be necessary as a financial problem to have Government contributions until after the system has been in operation for 30 years. The combined contributory rate we recommend is 1 percent of pay roll to be divided equally between employers and employees, which is to be increased by 1 percent each 5 years, until the maximum of 5 percent is reached in 20 years.

There still remains, unprotected by either of the two above plans, professional and self-employed groups, many of whom face dependency in old age. Partially to meet their problem, we suggest the establishment of a voluntary Government annuity system, designed particularly for people of small incomes.

#### SECURITY FOR CHILDREN

A large group of the children at present maintained by relief will not be aided by employment or unemployment compensation. There are the fatherless and other "young" families without a breadwinner. To meet the problems of the children in these families, no less than 45 States have enacted children's aid laws, generally called "mothers' pension laws." However, due to the present financial difficulty in which many States find themselves, far more of such children are on the relief lists than are in receipt of children's

aid benefits. We are strongly of the opinion that these families should be differentiated from the permanent dependents and unemployables, and we believe that the children's aid plan is the method which will best care for their needs. We recommend Federal grants-in-aid on the basis of one-half the State and local expenditures for this purpose (one-third the entire cost).

We recommend also that the Federal Government give assistance to States in providing local services for the protection and care of homeless, neglected, and delinquent children and for child and maternal health services especially in rural areas. Special aid should be given toward meeting a part of the expenditures for transportation, hospitalization, and convalescent care of crippled and handicapped children, in order that those very necessary services may be extended for a large group of children whose only handicaps are physical.

#### RISKS ARISING OUT OF ILL HEALTH

As a first measure for meeting the very serious problem of sickness in families with low income we recommend a Nation-wide preventive public-health program. It should be largely financed by State and local governments and administered by State and local health departments, the Federal Government to contribute financial and technical aid. The program contemplates (1) grants in aid to be allocated through State departments of health to local areas unable to finance public-health programs from State and local resources, (2) direct aid to States in the development of State health services and the training of personnel for State and local health work, and (3) additional personnel in the United States Public Health Service to investigate health problems of interstate or national concern.

The second major step we believe to be the application of the principles of insurance to this problem. We are not prepared at this time to make recommendations for a system of health insurance. We have enlisted the cooperation of advisory groups representing the medical and dental professions and hospital management in the development of a plan for health insurance which will be beneficial alike to the public and the professions concerned. We have asked these groups to complete their work by March 1, 1935, and expect to make a further report on this subject at that time or shortly thereafter. Elsewhere in our report we state principles on which our study of health insurance is proceeding, which indicate clearly that we contemplate no action that will not be quite as much in the interests of the members of the professions concerned as of the families with low incomes.

#### RESIDUAL RELIEF

The measures we suggest all seek to segregate clearly distinguishable large groups among those now on relief or on the verge of relief and to apply such differentiated treatment to each group as will give it the greatest practical degree of economic security. We believe that if these measures are adopted, the residual relief problem will have diminished to a point where it will be possible to return primary responsibility for the care of people who cannot work to the State and local governments.

To prevent such a step from resulting in less humane and less intelligent treatment of unfortunate fellow citizens, we strongly recommend that the States substitute for their ancient, out-moded poor laws modernized public-assistance laws, and replace their traditional poor-law administrations by unified and efficient State and local public welfare departments, such as exist in some States and for which there is a nucleus in all States in the Federal emergency relief organizations.

#### ADMINISTRATION

The creation of a social insurance board within the Department of Labor, to be appointed by the President and with terms to insure continuity of administration, is recommended to administer the Federal unemployment compensation act and the system of Federal contributory old-age annuities.

Full responsibility for the safeguarding and investment of all social insurance funds, we recommend, should be vested in the Secretary of the Treasury.

The Federal Emergency Relief Administration is recommended as the most appropriate existing agency for the administration of non-contributory old-age pensions and grants in aid to dependent children. If this agency should be abolished, the President should designate the distribution of its work. It is recommended that all social welfare activities of the Federal Government be coordinated and systematized.

#### EMPLOYMENT ASSURANCE

A program of economic security for the Nation that does not include those now unemployed cannot possibly be complete. They, above all, are in need of security. Their tragic situation calls attention not only to their own desperate insecurity but to the lack of security of all those who are dependent upon their own earnings for a livelihood. Therefore, any program for economic security that is devised must be more comprehensive than unemployment compensation, which of necessity can be given only for a limited period. In proposing unemployment compensation we recognize that it is but a complementary part of an adequate program for protection against

the hazards of unemployment, in which stimulation of private employment and provision of public employment on a security-payment basis are other major elements.

#### PRIVATE EMPLOYMENT

In our economic system the great majority of the workers must find work in private industry if they are to have permanent work. The stimulation and maintenance of a high level of private employment should be a major objective of the Government. All measures designed to relieve unemployment should be calculated to promote private employment and also to get the unemployed back into the main channel of production. We believe that provision of public employment in combination with unemployment compensation will most effectively serve these purposes. Both will operate to maintain purchasing power, and public employment will indirectly give work to many more persons in private industry who otherwise would have none. At the same time it will stimulate workers to accept and seek private employment when it becomes available.

#### PUBLIC EMPLOYMENT

What the Federal, local, and State governments would be called upon to do in providing work depends upon many complicated factors: financial resources, advance planning, the general industrial trend and methods; but it is a sound principle that public employment should be expended when private employment slackens, and it is likewise sound that work in preference to relief in cash or in kind should be provided for those of the unemployed who are willing and able to work.

The experience of the past year has demonstrated that making useful work available is a most effective means of meeting the needs of the unemployed. Further, it has been demonstrated that it is possible to put large numbers of persons to work quickly at useful tasks under conditions acceptable to them. The social and economic values of completed projects represent a considerable offset to the economic losses occasioned by millions of unemployed workers. Work maintains occupational skill. The required expenditures have an important stabilizing effect on private industry by increasing purchasing power and employment, and the completed works frequently produce self-liquidating income.

In periods of depression public employment should be regarded as a principal line of defense. Even in prosperous times it may be necessary, on a smaller scale, when "pockets" develop in which there is much unemployment. Public employment is not the final answer to the problem of stranded communities, declining industries, and impoverished farm families, but is necessary supplement to more



fundamental measures for the solution of such problems. And it must be remembered that a large part of the population will not be covered by unemployment compensation. While it will not always be necessary to have public employment projects to give employment assurance, it should be recognized as a permanent policy of the Government and not merely as an emergency measure.

Such an employment program must be related to unemployment compensation; and the resources of all public bodies—Federal, State, and local—must be coordinated if the policy of employment assurance is to be effectively realized. It would be advantageous to include in the program many types of public employment other than those which are considered necessary for the regular operations of government. This would include not only public construction of all kinds, but also appropriate work to employ usefully the professional and self-employed groups in our population. Because of the predominant importance of State and local construction in total public construction it is also essential that such Federal agencies as are established be empowered to incorporate State and local construction into the work program. It would also be desirable to extend Federal loans at low rates of interest to States and local governments for employment purposes. Such loans, once established, should be on a self-liquidating basis, and should become a revolving fund to be used over and over again as loans are repaid.

This entire program points immediately and inevitably toward practical advance planning—on a broad scale to make the potential resources of a region available for the general welfare of the people involved and toward detailed development of individual projects. To this end we endorse the recommendations of the National Resources Board for the establishment of a permanent national planning board.

We propose that public employment be made as nearly like private employment as possible. Applicants should be selected for their apparent ability to do the work offered as well as on the basis of their need; and we believe the public employment officers should be extensively utilized for this purpose. Only those who really work should be kept at work; the others should be discharged as in private employment.

#### COORDINATION WITH UNEMPLOYMENT COMPENSATION

We believe it is desirable that workers ordinarily steadily employed be entitled to unemployment compensation in cash for limited periods when they lose their jobs. It is against their best interests and those of society that they should be offered public employment at this stage, thus removing them from immediate consideration for reemploy-



ment at their former work. Very often they will need nothing further than unemployment compensation benefits, for they will be able to reenter private employment after a brief period, but if they are unable to do so and remain unemployed after benefit rights are exhausted, we recommend they should be given, instead of an extended benefit in cash, a work benefit—an opportunity to support themselves and their families at work provided by the Government.

Similarly we deem provision of work the best measure of security for able-bodied workers who cannot be brought under unemployment compensation. Such workers will become eligible for public employment soon after the loss of regular employment; but more care will have to be exercised in their selection, to be certain that only workers who are ordinarily employed are given public employment.

## UNEMPLOYMENT COMPENSATION

### DESCRIPTION

Unemployment compensation as we use this term includes both unemployment insurance and unemployment reserves. It is a device through which reserves are accumulated during periods of employment to be paid out in periods of unemployment. In every system of unemployment compensation set up thus far, these reserves are built up through contributions paid by the employers alone, the employers and employees, or the employers, employees, and the Government. Except in England (where the contributions are uniform amounts per employee), the contributions everywhere are expressed as percentages of pay roll, and only in Belgium is a distinction made in the rate of contribution in different industries in accordance with their risk of unemployment.

All European systems create pooled unemployment insurance funds for the entire state or nation, in which the contributions of all employers are commingled. The systems voluntarily established by a number of employers in this country and also the Wisconsin law (which is the only unemployment compensation act in force in this country) establish, instead, industry or company unemployment reserves, in which each employer (or industry) is responsible for his own employment and his employees must look exclusively to his reserve fund for their compensation.

Some European unemployment insurance systems are voluntary, but the experience everywhere has been that compulsory coverage is necessary to include a majority of the industrial workers. Even with compulsory coverage large groups of workers cannot readily be brought under unemployment compensation; among them employees in very small establishments, and, of course, all self-employed persons.

Benefits from unemployment insurance funds are payable only for involuntary unemployment which is not due to the employee's own misconduct. An employee who is discharged or laid off is required to register at his nearest employment office, but draws no benefits during a specified waiting period. (In the basic calculations of our actuaries, a waiting period of 4 weeks was assumed.) If still unemployed after the waiting period, the worker becomes entitled to unemployment compensation at a specified percentage of his average wages prior to his discharge or lay-off, subject to an absolute maximum and, usually, also an absolute minimum. (In our calculations a 50 percent compensation rate and a maximum of \$15 per week, but no minimum, were assumed.) Payments are usually made weekly and, an important condition in any unemployment compensation system, the unemployed worker must keep in touch regularly with the employment office and cannot draw any further benefits if he refuses to accept suitable employment offered him. In any event, the maximum number of weeks of benefit that may be drawn is definitely limited through a ratio of weeks of benefit to weeks of previous employment (1 to 4 in our calculations) and by absolute limitations. (We suggest to the States in framing their laws that on the basis of 3-percent-contribution rate the maximum benefit period cannot safely exceed 16 weeks and should be reduced to 15 weeks, if it is desired to give workers who have been long employed without drawing benefits an additional (maximum) week of compensation for each 6 months they have been employed without drawing benefits, up to a maximum of 10 additional weeks.)

After an unemployed worker has exhausted his rights to benefits, European systems generally permit him to draw extended benefits, on a means-test basis, for additional periods, the entire cost of which is borne by the government. As we have stated, such extended cash benefits seem to us far less desirable than work benefits, and we recommend that an employee, after he has exhausted his contractual rights, be certified to the authorities in charge of the Federal work program as entitled to a work benefit. Such certification shall entitle the unemployed insured worker, who has exhausted his cash benefits, to employment on any available public employment project, without a means test, but with the proviso that he must be dependent upon his own earnings and that not more than one member of any family or household will be given public employment.

#### PLACE IN SECURITY PROGRAM

The actuaries and other technicians we have consulted estimate that if the plan we suggest had been in operation throughout the country in 1933, somewhat less than an average of 16,000,000 employed workers would have been included in the system, and that

had there been in that year 100 percent employment, slightly more than 26,000,000 would have been included—one-half of the entire number of those gainfully occupied. These figures give the approximate minimum and maximum number of workers who can be brought under unemployment compensation; the total, at any given time depending upon the state of industrial activity and the extent to which the system is really Nation-wide in operation.

If a system of unemployment compensation had been in operation everywhere in this country during the years from 1922 to 1933, it is estimated that a 3 percent contribution rate with this coverage would have resulted in average total collections of approximately \$825,000,000 per year, or \$10,000,000,000 in the entire period. The estimated collections would have varied from a high of approximately \$1,040,000,000 in 1929 to a low of \$560,000,000 in 1932. During the twenties the contributions would have considerably exceeded the benefits paid and at the maximum point in 1929 approximately \$2,000,000,000 would have been accumulated in the unemployment reserve funds, which would have been spent quite rapidly after the depression set in. In comparison with the emergency relief expenditures, now approximating \$1,800,000,000 per year, or the \$1,000,000,000 annually invested by the workers of the country in industrial insurance even during the depression, and the more than \$20,000,000,000 of assets of life-insurance companies, the total annual contributions and maximum reserves in a Nation-wide unemployment compensation system are small, but they are by no means negligible.

Unemployment compensation does not lend itself to actuarial determination of benefits of the same precision as is possible in other forms of insurance. We have now in this country only very limited statistics of unemployment. One of the values of a Nation-wide system of unemployment compensation will be the collection of accurate and comprehensive unemployment statistics which it will make possible.

On the assumption, however, that the past experience during the entire business cycle does furnish at least an approximate guide to possible future unemployment, our actuaries and statisticians have computed the maximum benefit periods which could have been allowed at varying contribution rates. These computations were made on the basis of the unemployment experience of the years 1922 to 1933 and 1922 to 1930, respectively, as shown in table I.

*Actuarial estimates of the maximum number of weeks of benefit that could have been paid at various contribution rates and waiting periods under a nation-wide unemployment compensation system on the basis of the unemployment rates from 1922 to 1933, and from 1922 to 1930*

Contribution rate	Waiting period (in weeks)	Standard maximum weeks of benefits			
		1922 to 1933 experience		1922 to 1930 experience	
		Unad-justed	With actu- arial ad- justments	Unad-justed	With actu- arial ad- justments
3 percent.....	4	14	10	20	15
3 percent.....	3	13	9	18	14
3 percent.....	2	12	8	17	12
4 percent.....	4	21	15	36	24
4 percent.....	3	20	14	32	21
4 percent.....	2	18	12	28	18
5 percent.....	4	35	21	48	38
5 percent.....	3	31	19	48	35
5 percent.....	2	27	17	46	30

#### Assumptions in the unadjusted computations

(1) Nation-wide coverage, including all establishments employing six or more employees, but applying to the first \$50 per week as a wage or salary to any employee; (2) 1 year of contributions before benefits became payable; (3) deficits in reserve funds after end of period; and (4) benefits of 50 percent of the average weekly wages.

#### Adjustments

On the columns giving the estimated maximum weeks of benefit "with actuarial adjustments" the above assumptions are basic but allowance is made for all factors likely to increase or decrease costs, among them (1) the rule that no employee may draw benefits for whom contributions have not been paid for at least 40 weeks in the preceding years nor for 10 weeks after he has exhausted his benefit rights; (2) savings through employees voluntarily quitting their work and discharges for proven misconduct; (3) allowance of an additional maximum week of benefits for each 6 months of contributions without drawing benefits, up to a maximum of 10 additional weeks; (4) limitation of benefits in the ratio of 1 week of benefits to 4 weeks of contributions; (5) compensation for part-time unemployment; (6) limitation of compensation in seasonal industries to unemployment occurring within the normal season; (7) limitation of the maximum benefit to \$15 per week; (8) estimated increases in costs resulting from the fact that benefits will be paid on a full-time-wage basis while the contributions are made on actual pay roll, including much part time; (9) inadequacy of data; and (10) allowances for various contingencies, among them the probability of increased costs in the course of time, as is the experience in all other forms of insurance. Weighting all these and some other factors, the actuaries arrived at a loading of 28 percent above the unadjusted cost figures.

While the maximum benefit periods, set forth in table I, are mere approximations, they very clearly indicate that on a contractual basis, benefits can be paid only for periods which, to many people, will seem short. The benefits are small, although considerably higher on the average than relief grants. While unemployment compensation is far from being a complete protection, it is a valuable first line of defense for the largest group in our population,



the industrial workers ordinarily steadily employed. Unemployment compensation should permit such a worker, who becomes unemployed, to draw a cash benefit for a limited period during which there is expectation that he will soon be reemployed. This should be a contractual right not dependent on any means test. Normally the insured worker will return to his old job or find other work before his right to benefits is exhausted. If he does not find work, we recommend that his further period of unemployment should be met by a work benefit, as described in the section of this report dealing with employment assurance. This correlation between the cash benefit and the work benefit is recommended, and it seems to us that the combination is both fair and desirable. It will carry workers over most, if not all, periods of unemployment in normal times, without resort to any other form of assistance. While the maximum benefit periods indicated by the actuarial calculations are short in relation to the unemployment suffered by the people now on relief, it must be remembered that in ordinary industrial periods the great majority of workers who become unemployed find other work in a much shorter time.

But unemployment compensation is also valuable in depressions. If the benefits are kept within the limits we suggest, the funds should prove adequate for all minor depressions. In a depression of such depth as that which has prevailed since 1929 the funds are likely to be exhausted but will prove very helpful in the early stages. Had \$2,000,000,000 been available for distribution to the workers when depression set in in 1929—as it might have been, had an unemployment-insurance system with a 3-percent contribution rate been in operation from 1922 on—it would have had a most pronounced stabilizing effect at a very crucial time. Within a year, or a little more, these accumulated reserve funds would have been exhausted, but considerable amounts would still have continued to be collected in contributions and distributed to the unemployed in benefits, thereby reducing relief costs and lightening the financial load on the public and the Government.

Some economists urge that, instead of using a tax on pay rolls, unemployment compensation should be paid through Federal Government borrowings to be repaid hereafter out of other types of Federal taxes. Without expressing any judgment on that contention, we deem it desirable, at the present time, to employ a pay-roll tax for unemployment compensation, although it may be possible that experimentation under the proposed statute will show that at some time in the future a plan built upon the other alternative suggestion should be substituted, in whole or in part, for that which we are proposing.

In not recommending any contributions derived from bond issues or income or other general tax sources we have had in mind that the Government under the plan we suggest will incur large expenditures in providing a work benefit, which will complement the cash benefits from unemployment compensation. It is our conviction that, at least at this time, general tax revenues should be drawn upon rather for employment assurance than for unemployment compensation.

#### GENERAL SKETCH OF LEGISLATION

Unemployment insurance has been in successful operation in England and many other European countries for some years. While the English system suffered some discredit through the combination, from 1924 to 1931, of insurance with relief and in all countries the unemployment-insurance funds have had to be governmentally aided and/or the rate of contributions increased and benefits decreased during the present depression, unemployment insurance everywhere has survived the depression. (Russia, however, has paid no benefits since 1930.) While unemployment insurance has not proved a panacea for unemployment, it has in all countries provided a self-respected method of support, far superior to relief, for a large percentage of the unemployed.

In this country there has been considerable interest in unemployment insurance ever since the enactment of the pioneer British law of 1911, especially since the depression of 1920-21. In the years that have intervened, considerable controversy has developed over the type of unemployment compensation legislation that should be enacted; particularly over such questions as unemployment insurance versus unemployment reserves, employee contributions, governmental contributions, extended benefits, and the type of unemployment to be benefited. It is our conviction that these controversies have developed largely because there has been no action, and, therefore, no practical experience on this subject. Further investigations and other devices for delay will merely enhance the negative character of the debate. What is needed at this state is demonstration, not further debate and research.

This background, it seems to us, is an important consideration in determining the type of unemployment compensation legislation to be recommended. It clearly suggests the desirability of permitting considerable variation, so that we may learn through demonstration what is best. This, we believe, can at this time best be secured under a cooperative Federal-State system, which permits variations in State laws but insures uniformity in respects in which uniformity is absolutely essential.

A federally administered system of unemployment compensation is undoubtedly superior in some respects, particularly in relation to employees who move from State to State. This presents a problem, involved in State administration, which we do not at this time know how to solve, although we do not regard it as insoluble and recommend that it should be made one of the major subjects of study of the Federal administrative agency. We recognize also that in other respects State administration may develop marked inadequacies. Should these fears expressed by the champions of a federally administered system prove true, it is always possible by subsequent legislation to establish such a system. We recommend that it be expressly provided in the Federal act that all States must include in their statutes provisions to the effect that those acts shall not be deemed to create any vested interests preventing modification or repeal and that a similar reservation of power be made by the Federal Government. Accordingly, the Congress can at any time increase the requirements which State laws must fulfill and may, if it sees fit, at some future time, substitute a federally administered system for the cooperative Federal-State system we recommend.

All things considered, however, we deem it the safest and soundest policy to confine the role of the Federal Government with respect to this problem at this time to removing obstacles to State action, safeguarding and liquidating the reserve funds, and aiding the States with their problems, leaving to them primary responsibility for administration.

Federal cooperation is essential, because the States cannot establish systems of unemployment compensation with reasonably favorable conditions unless there is assistance from the Federal Government. So long as there is danger that business in some States will gain a competitive advantage through failure of the State to enact an unemployment compensation law, few such laws will be enacted. This obstacle to State action can be removed only through the imposition by the Federal Government of a uniform tax (rate of contribution) on all employers throughout the country, so that no State will have an unfair advantage. We therefore recommend legislation which will impose a uniform Federal tax on payrolls with an offset permitted to any employer who contributes to an unemployment insurance fund under a compulsory State law. This we believe will encourage the speedy enactment of State laws which meet minimum standards of security and fairness.

The Federal Government has a further important obligation in the safeguarding and investment of the reserve funds. Unemployment reserve funds are peculiar in that the demands upon them will fluctuate violently with industrial conditions. In good years these funds



will have receipts far in excess of disbursements; when serious depression sets in, the reserves will be used up rapidly. Unemployment compensation should not operate to increase unemployment, but there is danger that it will do so unless there is intelligent and unified handling of the reserve funds. One of the most important elements in attaining economic stability is the credit policy of the Government. Unless the investment and liquidation of the unemployment reserve funds is coordinated with this credit policy, these funds may operate to nullify the attempts of the Government to maintain stability. Particularly, when the Government is trying to prevent a depression the unemployment reserve funds should not be thrown on the markets, as they are likely to be if held by the States or in private hands. Intelligently handled, unemployment reserve funds can be made an important factor in preventing a depression; but utilization for this purpose is possible only if their investment and liquidation is within control of the United States Treasury. We deem this an absolute essential if unemployment compensation is to accomplish the purposes for which it is designed.

Beyond this, the respective spheres of the State and local governments in unemployment compensation are not clearly defined. Some standardization is desirable, but we believe that this should not be a matter of Federal control, but of cooperative action. A cooperative Federal-State unemployment compensation system should include the essentials we have outlined. In making definite recommendations as to the technique of establishing such a system, we are proceeding in the conviction that our purpose could be most promptly and effectively accomplished by Federal legislation which would (1) produce uniformity in the burden, by levying a pay-roll tax; (2) stimulate the passage of complete and self-sustaining unemployment compensation laws in the States, by allowing a credit against the Federal tax for contributions paid under State laws; and (3) to allow the necessary central control of the reserve funds, in order to prevent their operating toward instability. We prefer a tax credit device to one in which the tax would be wholly collected and then remitted, as grants-in-aid, to the States, because under the latter system the States would not have self-supporting laws of their own, and as with all compensation having its source in Federal grants there would be great and constant pressure for larger grants exceeding the money raised by the tax, with a consequent confusion of compensation and relief.

#### OUTLINE OF FEDERAL ACT

We earnestly recommend prompt enactment by the Congress of legislation which will (1) impose a uniform pay-roll tax on the em-



ployers to whom the act is applicable, beginning with the year 1936, and (2) create machinery for participation in the administration of unemployment compensation.

The tax should be imposed upon all employers who have employed four or more employees for a reasonable period of time (any 13 weeks of the taxable year for example), and should be measured by a percentage of the employer's pay roll. By 1938 the rate of tax should be 3 percent of the pay roll; but in the first 2 years, if economic recovery has not progressed satisfactorily, we recommend a lower rate, and suggest that the index of industrial production of the Federal Reserve Board may well be used to determine whether the rate in the first and second years shall be 1 percent, 2 percent, or 3 percent. We are opposed to exclusions of any specified industries from the Federal act, but favor the establishment of a separate nationally administered system of unemployment compensation for railroad employees and maritime workers.

Against the tax imposed in the Federal law, a credit, up to 90 percent of the tax, should be allowed for the money the employer has paid to the proper State authority as contributions for unemployment compensation purposes pursuant to State law. These credits, however, should be permitted only if the State is cooperating with the Federal Government in the administration of unemployment compensation, expending the money raised solely for benefits, and is depositing all contributions as collected in an unemployment trust fund in the United States Treasury, as hereafter recommended.

If a State, to encourage stabilization of employment, permits particular industries or companies to have individual-reserve or guaranteed-employment accounts—accounts to be kept by the State authority but deposit of the funds in the United States Treasury—or allows lower rates of contributions to employers not having such individual accounts on the basis of their favorable experience, an additional credit beyond the amount contributed in a particular year may be granted in the Federal act. We recommend, however, that such credit be allowed in all cases only on the condition that the employer has discharged in full his obligations under the State law and continues to pay at least 1 percent into the pooled State fund. Further, such an employer with an individual-reserve account, before becoming entitled to any additional credit, must have and maintain a reserve equal to at least 15 percent of his pay roll, and an employer with a guaranteed-employment account, a reserve of 7½ percent of his pay roll; while no additional credit for any reduction in rates payable to a pooled State fund may be allowed until after the State law has been in operation for 5 years.

To encourage efficient administration, without which unemployment insurance will fail to accomplish its purpose, we believe that

the Federal Government should aid the States by granting them sufficient money for proper administration, under conditions designed to insure competence and probity. Among these conditions we deem selection of personnel on a merit basis vital to success. We also recommend that as a condition, both of grants-in-aid for administration and of the allowance of any tax credits for payments made under any State unemployment compensation act, the State must have accepted the provisions of the Wagner-Peyser Act and provide for the payment of unemployment compensation through the public employment offices established under such act. A grant-in-aid for administration would not create any new burden on the Federal Government, as it would be paid for by the amount of the pay roll tax over and above the credits allowed for contributions to State funds.

As an essential part of the Federal law it should be made a requirement for any tax credits that all moneys collected for unemployment compensation purposes under State laws—including those credited to individual industry or company accounts—be deposited as collected in the Treasury of the United States in a trust account to the credit of the State, to be invested and liquidated as the Secretary of the Treasury may from time to time direct. Interest on the average amount so deposited in each State fund shall be allowed at regular intervals, at a rate equal to the average yield of all outstanding primary obligations of the Federal Government, less one-eighth of 1 percent. Withdrawals from the fund are to be made only for unemployment compensation purposes, under regulations to be prescribed by the Secretary of the Treasury.

The collection of the Federal tax and investment of the reserve funds should be made under the control of the Secretary of the Treasury. All other aspects of Federal participation in unemployment compensation should be a responsibility of the Department of Labor. We recommend the creation within the Department of Labor of a social insurance board. We recommend that the board consist of three members appointed by the President. They should devote full time to their duties and be appointed for terms of 6 years, which should be varied at the outset to insure continuity in administrative policies. We recommend that this board be given power to decide what State laws comply with the Federal requirements and that it be made its duty to assist States in setting up unemployment compensation administrations and in the solution of the problems they will encounter; also that it conduct continuous studies to correlate and make useful the experience developed under State laws. The social insurance board should, likewise, have responsibility for the administration of the compulsory and volun-

tary systems of old-age annuities, whose establishment we suggest in another section of this report, and should study the advisability of instituting other forms of social insurance.

The plan for unemployment compensation that we suggest contemplates that the States shall have broad freedom to set up the type of unemployment compensation they wish. We believe that all matters in which uniformity is not absolutely essential should be left to the States. The Federal Government, however, should assist the States in setting up their administrations and in the solution of the problems they will encounter.

#### SUGGESTIONS FOR STATE LEGISLATION

This committee plans the preparation of a model State unemployment-compensation bill, with alternate clauses at many points. In this report it seems unnecessary to discuss all of the details of this model bill, since the legislature will determine the policy in each State. On some major points, however, comment seems appropriate.

*Contributions.*—The States should make all contributions compulsory and may require them from employers alone, or from employers and employees, with or without contributions by the State government.

*Benefits.*—The States should have freedom in determining their own waiting periods, benefit rates, maximum benefit periods, etc. We suggest caution lest they insert benefit provisions in excess of collections in their laws. To arouse hopes of benefits which cannot be fulfilled is invariably bad social and governmental policy.

It is our recommendation that the benefit periods be kept within the maximum limits of the last column of table I, which has been presented earlier in this report, and in no event should they exceed those of the second last column. If it is considered desirable that the unemployment-compensation funds should give protection in depression periods as well as in normal times, the maximum periods of the first two columns should be regarded as standard. While unemployment varies greatly in different States, there is no certainty that States which have had less than normal unemployment heretofore will in the future have a more favorable experience than the average for the country. States whose industries are such that they will probably continue to have a high rate of unemployment should not pay benefits up to the maximum amounts permitted in the actuarial calculations. With industry or company funds, longer benefit periods can be permitted if the employers guarantee payment of these benefits in full and furnish security adequate to insure fulfillment of these guarantees; but in all other cases it is preferable, at the outset, to err on the side of safety than of too great liberality.



At this point we call attention to the desirability of allowing additional weeks of benefit to employees who have been long employed without drawing benefits. The British experience has been that a very large percentage of all employees draw no benefits over periods of many years. These are the workmen longest retained, who, particularly if they are required to contribute, have a very good claim for additional benefits when, because of a depression or change in technique, they lose their jobs and are unable to find other work. Our actuarial estimates indicate that if 1 week is taken off the ordinary benefit period for all workers, a special maximum of an additional week of benefits can be allowed to workers who have not drawn benefits for 6 months, 2 weeks for those who have not drawn benefits for 12 months, etc., up to a maximum of 10 weeks additional benefits for workers who have not drawn any benefits for 5 years.

*Provisions to protect funds against heavy drains by particular classes of employees.*—The provision last suggested is in line with the world experience that unemployment compensation is best adapted to employees who normally have some degree of security in their employment. Such workers, we feel, should be given some protection against exhaustion of the funds by others who work only intermittently.

English experience has demonstrated that seasonal industries will cause a heavy drain on the unemployment-insurance funds unless the benefits to seasonal workers are limited to unemployment occurring within the usual season for that particular industry. Determination of what this season is for each distinct seasonal industry must necessarily be left to the administrative authority.

Similarly the funds need to be protected against too heavy drain by the casual workers. This can best be done (1) through a ratio which relates the maximum weeks of benefit to the weeks of employment, the usual ratio suggested being 1 to 4; and (2) allowing benefits only if the employee has worked with some degree of regularity.

Partial unemployment creates another special problem. It is desirable, within limits, that work shall be shared when orders fall off, rather than that some employees shall be laid off altogether. It is also desirable that an unemployed man take part-time or odd-job employment when possible. Therefore, to encourage this, we advise that State laws should provide that the combination of part-time wages and benefits is better than benefits alone.

*Willingness to work test.*—To serve its purposes, unemployment compensation must be paid only to workers involuntarily unemployed. The employees compensated must be both able and willing to work and must be denied benefits if they refuse to accept other



suitable employment. Workers, however, should not be required to accept positions with wage, hour, or working conditions below the usual standard for the occupation or the particular region, or outside of the State, or where their rights of self-organization and collective bargaining would be interfered with.

*Individual industry and company accounts.*—The primary purpose of unemployment compensation is to socialize the losses resulting from unemployment, but it should also serve the purpose of decreasing rather than increasing unemployment. We favor leaving it optional with the States whether they will permit any "contracting out" from State-pooled funds in the sense that separate accounts may be set up for the exempted industries or companies, but without any change in the methods of collection or deposit and investment of funds. We strongly urge, however, that only plants which furnish adequate security to guarantee payment in full of all unemployment compensation which may become due to their employees shall be permitted to have separate accounts, and only upon condition that they pay 1 percent of their pay roll into the general State fund. We further advise that if "contracting out" is permitted, the State law should contain provisions under which employees will not lose their unused benefit rights, or any contributions which they may have made to such accounts above benefits received when they voluntarily leave the employ of an employer with a separate reserve account, lest such accounts operate to interfere with the mobility of labor. Experimentation with individual industry and company reserve accounts under proper restrictions will undoubtedly be permitted in some States; therefore, the importance of adequately safeguarding both the rights of the workers and the pooled State funds is emphasized.

We are opposed to any provision in the Federal act under which any industries or companies are exempted from State laws prescribing an exclusive State pooled fund.

*Guaranteed employment.*—Guaranteed employment is a device which, if properly safeguarded, will effectually secure all of the purposes of unemployment compensation. There would be no unemployment problem if all workers were guaranteed a sufficient annual wage. We feel it to be desirable that employers be permitted to experiment with guaranteed employment under the State laws, but also that such experiments should be conducted only under safeguards. Guaranteed employment, we believe, should be recognized as a reason for reduced contribution in State laws, only if the employees get at least as much protection as that afforded to employees by unemployment compensation. The period of guaranteed employment, when it is claimed as an offset, should be for at least 40 weeks of full-time

employment during the year, although less than full-time employment may be counted toward fulfillment of the guaranty, if the number of weeks of guaranteed employment is correspondingly increased. Employees should be further protected by a provision in State laws under which they will receive at least half of the normal unemployment compensation benefits if they lose employment at the end of the guaranty period. Employers claiming contribution credits by guaranteeing employment should be permitted to do so only if the plan includes all their employees or all employees of entire plants. They should be required to make some contribution to the pooled State unemployment compensation fund and should be entitled to additional credits against the Federal tax only if they fulfill all obligations of their guaranty and have accumulated an adequate reserve. Sufficient security should be required by the State authority to insure fulfillment of the guaranty.

#### GENERAL COMMENTS

The plan of unemployment compensation, we suggest, is frankly experimental. We anticipate that it may require numerous changes with experience, and, we believe, is so set up that these changes can be made through subsequent legislation as deemed necessary. If we are to wait until everyone interested in the subject is in agreement as to what is a perfect measure before enacting unemployment compensation legislation, there will be a long and unwarranted postponement of action.

The plan we suggest is one that will secure the much-needed experience necessary for the development of a more nearly perfect system. It is in accord with American traditions and the message of the President which initiated our study of this subject.

We submit that the Federal part of the program should be enacted into law by the Congress at the earliest date possible. This is urgently necessary if the State legislatures are to act in time to permit the legislation to go into effect January 1, 1936. In the coming year, 44 of the 48 States will hold regular sessions of their legislatures. Most of these will convene in January, and will be in session 3 months or less. Unemployment compensation in this country will suffer another year of delay unless there is prompt action by the Congress.

#### OLD-AGE SECURITY

##### THE OLD-AGE PROBLEM

In 1930 there were 6,500,000 people over 65 years of age in this country, representing 5.4 percent of the entire population. This percentage has been increasing quite rapidly since the turn of the cen-

tury and is expected to continue to increase for several decades. It is predicted, on the basis of the present population and trends, that by 1940, 6.3 percent of the population will be 65 years of age; by 1960, 9.3 percent; and by 1975, 10 percent. In 25 to 30 years the actual number of old people will have doubled, and this estimate does not take into account the possibility of a decrease in the mortality rate, which would further increase the total.

No even reasonably complete data are available regarding the means of support of aged persons, and the number in receipt of some form of public charity is not definitely known. The last almshouse survey was made more than 10 years ago, and the number of people in institutions of this kind can only be approximated. There are about 700,000 people over 65 years of age on F. E. R. A. relief lists, and the present cost of the relief extended to these people has been roughly estimated at \$45,000,000 per year. In addition there are a not definitely known but large number of old people in receipt of relief who are not on F. E. R. A. relief lists. All told, the number of old people now in receipt of public charity is probably in excess of 1,000,000.

The number in receipt of some form of pension is much smaller. Approximately 180,000 old people, most of them over 70 years of age, are receiving pensions under the State old-age assistance laws, the average pension last year being \$19.74 per month.

A somewhat smaller number of the aged are receiving public retirement or veterans' pensions, for which the expenditures exceed those under the general old-age assistance laws. Approximately 150,000 aged people are in receipt of industrial and trade-union pensions, the cost of which exceeds \$100,000,000 per year.

The number of the aged without means of self-support is much larger than the number receiving pensions or public assistance in any form. Upon this point the available data are confined to surveys made in a few States, most of them quite a few years ago. Connecticut (1932) and New York (1929) found that nearly 50 percent of their aged population (65 years of age and over) had an income of less than \$25 per month; 34 percent in Connecticut had no income whatsoever. At this time a conservative estimate is that at least one-half of the approximately 7,500,000 people over 65 years now living are dependent.

Children, friends, and relatives have borne and still carry the major cost of supporting the aged. Several of the State surveys have disclosed that from 30 percent to 50 percent of the people over 65 years of age were being supported in this way. During the present depression, this burden has become unbearable for many of the children, with the result that the number of old people dependent upon public or private charity has greatly increased.



The depression will inevitably increase the old-age problem of the next decades. Many children who previously supported their parents have been compelled to cease doing so, and the great majority will probably never resume this load. The depression has largely wiped out wage earners' savings and has deprived millions of workers past middle life of their jobs, with but uncertain prospects of ever again returning to steady employment. For years there has been some tendency toward a decrease in the percentage of old people gainfully employed. Employment difficulties for middle-aged and older workers have been increasing, and there is little possibility that there will be a reversal of this trend in the near future.

Men who reach 65 still have on the average 11 or 12 years of life before them; women, 15 years. A man of 65, to provide an income of \$25 per month for the rest of his life (computing interest at 3 percent) must have accumulated approximately \$3,300; a woman nearly \$3,600. If only this amount of income is allowed to all of the people of 65 years and over, the cost of support of the aged would represent a claim upon current national production of \$2,000,000,000 per year. Regardless of what may be done to improve their condition, this cost of supporting the aged will continue to increase. In another generation it will be at least double the present total.

#### GENERAL OUTLINE OF RECOMMENDATIONS

An adequate old-age security program involves a combination of noncontributory pensions and contributory annuities. Only noncontributory pensions can serve to meet the problem of millions of persons who are already superannuated or shortly will be so and are without sufficient income for a decent subsistence. A contributory annuity system, while of little or no value to people now in these older age groups, will enable younger workers, with the aid of their employers, to build up gradually their rights to annuities in their old age. Without such a contributory system the cost of pensions would, in the future, be overwhelming. Contributory annuities are unquestionably preferable to noncontributory pensions. They come to the workers as a right, whereas the noncontributory pensions must be conditioned upon a "means" test. Annuities, moreover, can be ample for a comfortable existence, bearing some relation to customary wage standards, while gratuitous pensions can provide only a decent subsistence.

Difficult administrative problems must be solved before people who are not wage earners and salaried employees can be brought under the compulsory system, and it is to be expected that some people from higher income groups will come to financial grief and dependence in old age. Until literally all people are brought under



the contributory system, noncontributory pensions will have a definite place even in long-time old-age-security planning.

There also is need for a voluntary system of annuities to supplement the compulsory system we advocate, intended primarily for persons of low and moderate income who are not included in the compulsory system. While the latter is not as important as the non-contributory pensions and the compulsory system of contributory annuities, we recommend the establishment of a related, but distinct, voluntary system of Government old-age annuities, for restricted groups in the population who do not customarily purchase annuities from commercial insurance companies.

Finally, in any complete program for old-age security, those aged should be considered who must be cared for in institutions—those who need custodial care which friends and relatives will not provide. Factual data bearing on the institutions for the care of the aged and their inmates are very scant and most of them out of date. We therefore recommend that the United States Department of Labor undertake at once a special survey of such institutions for the purpose of developing a constructive program for the improvement of institutional maintenance of the aged.

#### NONCONTRIBUTORY OLD-AGE PENSIONS

Old-age pensions are recognized the world over as the best means of providing for old people who are dependent upon the public for support and who do not need institutional care. In this country 28 States and 2 Territories now have laws providing for the payment of noncontributory pensions to dependent aged persons. The minimum age specified in these laws is either 65 or 70. All of them require long periods of residence within the State and allow pensions only if the aged applicants are without any substantial amount of property or income and have no relatives legally responsible for their support. In most of these acts the pensions are limited to a maximum of \$1 per day less any other income the pensioners may receive from any source. A few of the laws are less restrictive, but not more than two or three of the entire number can be regarded as even reasonably adequate. The administrative provisions in many of the laws are likewise defective; the officials who grant the pensions have no facilities for investigation and there is no machinery for supervision. Many laws place the entire cost of pensions on the local governments, and about one-third of these acts are optional in the sense that counties may or may not operate under the pension system as they see fit.

Many of these old-age-pension laws are entirely nonfunctioning; many pension authorities because of financial pressure have cut benefits below a proper minimum, and there are long waiting lists of

needy persons. While some improvement along these lines is to be expected with the insistent popular demand for old-age pensions; financial limitations are such that local and State action alone cannot be relied upon to provide either adequate or universal old-age assistance.

As has been stated, there are four times as many old people over 65 on relief lists as are in receipt of old-age pensions. These aged people do not belong on emergency-relief lists and, very properly, are now being eliminated therefrom. They should, instead, be provided for under old-age pension laws, operating in all States.

There is little likelihood, however, that an appreciable number of the dependent aged will receive pensions unless the financing of such measures is put on a radically different basis than at present. Both State and Federal participation are vital if the dependent aged are to be cared for through the human pension method.

Federal grants-in-aid will encourage the enactment of liberal old-age pension laws in all States and the granting of pensions to all of the aged who are dependent upon the public for support and who do not need institutional care. We, therefore, recommend a system of Federal grants-in-aid to States and Territories which provide old-age assistance for their needy aged under plans approved by the Federal Emergency Relief Administration or its successor agency. These grants-in-aid, we suggest, should be one-half of the total expenditures for old-age pensions, including administrative expenses, but with a proviso limiting the Federal subsidy to \$15 per month for any individual and the aid for administrative expenses to 5 percent of the State's total expenditures for old-age assistance.

#### Conditions of grants

Since the Federal Government, under the plan we recommend, is to assume one-half the cost of old-age pensions, we deem it proper that it should require State legislation and administration which will insure to all of the needy aged pensions adequate for their support. We recommend that aid be granted only to those States which enact laws that are state-wide or territory-wide in scope, and, if administered by political subdivisions, are mandatory upon them. Such laws may limit the granting of pensions to citizens of the United States and residents of the State or Territory, but may not require a longer period of residence than 5 years, within the last 10 years preceding the application for a pension. Property and income limitations may, likewise, be prescribed but no aged person otherwise eligible may be denied a pension whose property does not exceed \$5,000 in value, or whose income is not larger than is necessary for a reasonable subsistence compatible with decency and health. The pension to be allowed must be an amount sufficient, with the

other income of the pensioner, for such a reasonable subsistence. Federal grants-in-aid are to be paid only on account of pensions granted to persons over 65 years of age but until January 1, 1940, States may maintain a 70-year age limit, which must thereafter be reduced to 65. No Federal aid is to be extended for aged persons cared for in institutions, and so much of the total pensions paid to any pensioner as was derived from the United States Government shall constitute a lien on the estate of the aged recipient, which, upon his death shall be enforced by the State or Territory and refunded to the Federal Government. The administration of the old-age pension laws must be under the supervision of a designated State department, and must be so conducted as to insure fulfillment of the intent of the Federal grants-in-aid; namely, to give all dependent aged persons not in need of institutional care a decent subsistence in their own homes.

#### Costs

Only approximate estimates can be given regarding the costs of the proposed grants-in-aid. If a compulsory contributory annuity system is not established at the same time, actuarial estimates indicate that the Federal share of the cost of the noncontributory old-age pensions may in the first year reach a total of \$136,600,000; in the second year, \$199,000,000, and would increase steadily thereafter until it reaches a maximum of \$1,294,300,000 by 1980. We believe that these estimates are too high, particularly in the earlier years, as they do not allow sufficiently for the lag likely to occur before all the dependent aged will actually be granted pensions. Since the total now expended for old-age pensions is less than \$40,000,000 per year, and more than half of the entire population of the country is in States which have old-age pension laws, we are of the opinion that \$50,000,000 will be sufficient in the first year to pay the Federal share of the old-age-pension costs. Thereafter, this figure will tend to increase rather rapidly and by 1980 may reach the great total estimated by the actuaries. The estimates of the actuaries consulted by this committee are, in our judgment, so high in estimated figures for 1980 that further careful studies must be given to them, with the objective of finding ways and means for reduction and limitation of estimated Government contributions as of that year.

Obviously these figures will be reduced if a compulsory system of contributory annuities is established simultaneously with the Federal grants-in-aid. Sound financing demands this simultaneous action. The estimates of the actuaries indicate that if a compulsory system of contributory annuities is started by January 1, 1937, Federal grants-in-aid to the noncontributory pensions will by 1980 total less than 40 percent of the amount they will reach by that date if a contributory system is not started.



Furthermore, the actuarial figures assume that contributory annuities will not cover a large percentage of our population comprising those who are not actual wage earners. It is essential that as soon as possible these persons be brought into the compulsory system of contributory annuities, else the annual Government contributions will be so high as to constitute an impossible charge on the taxpayers.

#### CONTRIBUTORY ANNUITIES (COMPULSORY SYSTEM)

It is only through a compulsory, contributory system of old-age annuities that the burden upon future generations of the support of the aged can be lightened. With an increasing number and even more rapidly increasing percentage of the aged, the cost of supporting old persons will be a heavy load on future generations regardless of any legislation that may be enacted. Pensions sufficient for a decent subsistence for all of the aged who are dependent upon the public for support are approved by the overwhelming majority of the people of this country. In order to reduce the pension costs and also to more adequately provide for the needs of those not yet old but who will become old in time, we recommend a contributory annuity system on a compulsory basis, to be conducted by the Federal Government. Because of the large number of people involved and the other duties imposed on the Social Insurance Board (which we recommend should have responsibility for the administration of all types of social insurance), we deem it desirable that the taxes to finance this system should not become effective until January 1, 1937, but believe that the necessary legislation should be enacted at an early date, to enable the Board to make the necessary studies and other preparations for putting this plan into operation.

#### Outline of plan

We recommend that the contributory annuity system include, on a compulsory basis, all manual workers and nonmanual workers earning less than \$250 per month, except those of governmental units and those covered by the United States Railroad Retirement Act. (In the first 5 years that the act is in effect only employees who on the effective date are less than 60 years of age are to be included.) Employees who lose compulsory coverage (by becoming employers, ceasing to work, etc.) after they have made at least 200 weekly contributions are to be permitted to continue membership on a voluntary basis by paying a contribution equal to the combined contributions required from employers and employees.

The compulsory contributions are to be collected through a tax on pay rolls and wages, to be divided equally between the employers and employees. To keep the reserves within manageable limits, we sug-



gest that the combined rate of employers and employees be 1 percent in the first 5 years the system is in effect; 2 percent in the second 5 years; 3 percent in the third 5 years; 4 percent in the fourth 5 years and 5 percent thereafter. If it is deemed desirable to reduce the burden of the system upon future generations, the initial rate may well be doubled and the taking effect of each higher rate advanced by 5 years.

Both the tax on employers and the employees is to be collected through the employers, who shall be entitled to deduct the amount paid in the employees' behalf from wages due them. The necessary rules and regulations for collection of contributions are to be prescribed by the Secretary of the Treasury.

We suggest that the Federal Government make no contribution from general tax revenues to the fund during the years in which income exceeds payment from the funds, but that it guarantee to make contributions, when the level of payment exceeds income from contributions and interest, sufficient to maintain the reserve at the level of the last year in which income exceeded payments. According to our actuarial estimates the reserve on this basis would be maintained at about \$15,250,000,000.

No benefits are to be paid until after the system has been in operation for 5 years, nor to any person who has not made at least 200 weekly contributions, nor before the member has reached the age of 65 and retired from gainful employment. Persons retiring after having passed the age of 65 will receive only the same pension as if they had retired at that age. The benefits are normally to take the form of annuities payable during the remainder of the life of the annuitant. Should a member die before the age of 65 or before the amount of his own contributions has been paid to him as an annuity, the difference between his contributions and the amount which he may have received as an annuity, with interest at 3 percent, is to be paid as a death benefit to his dependents. Members who have made contributions for a short time but who, on reaching the age of 65 are not entitled to an annuity (because they have not made 200 contributions) are to be refunded their own contributions with 3 percent interest.

Under one proposal considered by the committee, the annuity payable to members in whose behalf contributions are first paid during the years 1937 to 1941 shall be computed as follows: If they are eligible to retirement in the sixth year after becoming members, their annuity shall be equal to 15 percent of the average weekly wage during the period they have been within the system, not counting that portion of the wage in excess of \$150 per month. For those retiring in the next 5 years this annuity is to be increased by 1 percent of the average weekly wage for each additional

40 weeks of contributions, but the increase shall not exceed 1 percent for each year of membership in the system. Thereafter the initial annuity is to be increased by 2 percent for each 40 weekly contributions, but not more than 2 percent per year, until a maximum pension of 40 percent of the first \$150 average monthly wages, upon which contributions have been paid shall be reached.

The minimum annuity payable to persons in whose behalf contributions are first paid in 1942 or subsequent thereto shall on retirement at age 65 or over and after 200 weekly contributions be 10 percent of the first \$150 average monthly wages upon which contributions have been paid. To this 10 percent shall be added 1 percent for each 40 weekly contributions subsequent to the first 200 payments made within the first 5 years of membership in the system, but not to exceed 1 percent for each year of membership after the qualifying period of 5 years.

An annuitant with a spouse, if he or she so desires, may chose in lieu of an annuity on the basis outlined, an actuarially equivalent joint survivorship annuity. In all cases, also, members shall not receive less than the actuarial equivalent of their own contribution.

The administration of the compulsory old-age annuity system we recommend should be vested in the Social Insurance Board. All reserve funds of the system, however, shall be invested and managed by the Secretary of the Treasury, on the same basis as the unemployment compensation funds.

#### **Explanation**

The plan outlined above contemplates that workers who enter the system after the maximum contribution rate has become effective will receive annuities which have been paid for entirely by their own contributions and the matching contributions of their employers. Workers now middle aged or older will receive annuities which are substantially larger than could be purchased by their own and the matching contributions, although considerably less than the annuities which will be paid to workers who contribute for longer periods. Larger annuities than on a strictly earned basis would seem desirable because annuities build up only very slowly—for instance, a 4-percent contribution rate on a wage of \$100 per month will produce at age 65 an annuity of only \$2.58 per month if contributions were made for 5 years beginning at 60 years; \$5.95 after 10 years, contributions beginning at 55; and \$10.19 after 15 years, contributions beginning at age 50.

The allowance of larger annuities than are warranted by their contributions and the matching contributions of their employers to the workers who are brought into the system at the outset, will involve a cost to the Federal Government which if payments are begun immediately will total approximately \$500,000,000 per year.

Under the plan suggested, however, no payments will actually be made by the Federal Government until 1965, and will, of course, be greater than they would be if paid as incurred, by the amount of the compound interest on the above sum. This plan, thus, involves the creation of a debt upon which future generations will have to pay large amounts annually, the Federal contributions representing the interest at 3 percent on the debt thus incurred to pay (partially) unearned annuities in the early years of the system.

While the creation of this debt will impose a burden on future generations which we do not wish to minimize, we, nevertheless, deem it advisable that the Federal Government should not pay its share of the cost of old-age annuities (the unearned part of annuities to persons brought into the system at the outset) currently. To do so would create a reserve which would reach a total of about \$75,000,000,000. Further, to pay this cost now would unfairly burden the younger part of the present generation, which would not only pay for the cost of its own annuities but would also pay a large part of the annuities to the people now middle-aged or over. Expressed differently, the plan we advocate amounts to having each generation pay for the support of the people then living who are old. However, we favor showing the debts to the fund currently incurred by the Government, which debts should be evidenced by formal Government obligations issued to the fund. We accordingly recommend that an actuarial audit of the annuity fund be made and published annually which shall set forth clearly the present status of the fund taking into account future payments and future income and will show the present worth of the obligations being incurred by the Federal Government.

This plan also contemplates only small contributions by employers and employees during the early years of the system. Somewhat larger payments in the early years may be advisable, to reduce the necessary Government contributions later on. If the initial rate were increased to 1 percent each on employers and employees and each higher rate come into operation 5 years earlier than we recommend (which is modification of our plan that has considerable merit), the reserve funds would at the maximum amount to \$28,200,000,000, and the ultimate Federal contribution decreased by \$350,000,000 per year.

#### Costs

Actuarial estimates based on the plan we have described indicate that the income of the compulsory annuity fund will in the first 5 years that the system is in operation amount to a little more than \$300,000,000. With increases in rates and interest earnings on the reserve this income will increase quite rapidly until by 1980 it will



amount to \$2,200,000,000 per year. Benefit payments will be light in the early years, but will increase steadily until by 1965 they will exceed the annual receipts. It is at this stage, that the Federal Government would begin to make contributions to the annuity system, which, under the figures submitted by the actuaries reach a maximum of above \$1,400,000,000 per year by 1980. (These contributions by the Federal Government, as has been stated, represent the unearned part of the pensions paid to people now approaching old age, with interest on these amounts calculated at 3 percent).

We realize that there may be valid objection to this plan, in that it involves too great a cost upon future generations. This cost can be reduced by putting the rate of 5 percent into effect at an earlier date; it can be entirely eliminated only through not paying any annuities that have not been fully earned. If the Congress deems it advisable to make either or both of these changes, we are prepared to suggest detailed plans for doing so.

Instead of a Government subsidy to the contributory annuity system it may be advisable to supplement the earned annuities of people now old (and whose earned annuities are, therefore small) by granting them assistance under noncontributory old-age pension laws, on a more liberal basis than in the case of persons who have accumulated no rights under the contributory annuity system. Thus, one of the required provisions of a State old-age pension law might be that in no event, prior to the year 1960, shall an annuity to which a person is entitled under the contributory annuity system be taken into account in determining the need of such person for assistance.

In considering the costs of the contributory system, it should not be overlooked that old-age annuities are designed to prevent destitution and dependency. Destitution and dependency are enormously expensive, not only in the initial cost of necessary assistance but in the disastrous psychological effect of relief upon the recipients, which, in turn, breeds more dependency.

The contributions required from employers and employees have an equally good justification. Contributions by the employees represent a self-respecting method through which workers make their own provision for old age. In addition many workers themselves on the verge of dependency will benefit through being relieved of the necessity of supporting dependent parents on reduced incomes, and at the expense of the health and well-being of their own families. To the employers, contributions toward old-age annuities are very similar to the revenues which they regularly set aside for depreciation on capital equipment. There can be no escape from the costs of old age, and, since these costs must be met, an orderly system under which employers, employees, and the Government will all



contribute appears to be the dignified and intelligent solution of the problem.

#### VOLUNTARY OLD-AGE ANNUITIES

The voluntary system of old-age annuities we suggest as a supplement to the compulsory plan contemplates that the Government shall sell to individuals on a cost basis deferred life annuities similar to those issued by commercial insurance companies; that is, in consideration of premiums paid at specified ages, the Government would guarantee the purchasers a definite amount of income starting at 65 for example, and continuing throughout the lifetime of the annuitant. The primary purpose of the plan is to offer persons not included within the compulsory system a systematic and safe method of providing for their old age. It could also be used by insured persons as a means of supplementing the old-age income provided under the compulsory plan.

Without attempting to outline in detail the terms under which Government annuities should be sold, it is believed that a satisfactory and workable plan, based on the following principles, could be developed without great difficulty:

1. The plan should be self-supporting, and premiums and benefits should be kept in actuarial balance by any necessary revision of the rates which periodic examinations of the experience would indicate.

2. The terms of the plan should be kept as simple as practicable in the interest of economical administration and to minimize misunderstanding on the part of individuals utilizing these arrangements. This could be accomplished by limiting the types of annuity offered to two or three of the most important standard forms.

3. The plan should be designed primarily for the same income groups as those covered by compulsory system; hence, provision should be made for the acceptance of relatively small premiums (as little as \$1 per month) and the maximum annuity payable to any individual should be limited to the actuarial equivalent of \$50 per month.

4. The plan should be administered by the social insurance board along with the compulsory old-age insurance system, but as a separate undertaking.

5. The social insurance board should study the feasibility of Government contribution toward the annuities of people now middle aged or older with income of \$2,500 per year or less who come under this voluntary plan, comparable to the unearned part of the annuities which will be paid by the Government to people of middle age or older who are brought under the compulsory system. This is but a fair deal to farm owners and tenants, self-employed persons and

other people of small incomes whose economic situation may be not one whit better than that of many workers covered by the compulsory system. Further study will be necessary, however, before a practical method of accomplishing this purpose can be suggested, one which will avoid the danger of benefiting those persons who need assistance least.

### SECURITY FOR CHILDREN

It must not for a moment be forgotten that the core of any social plan must be the child. Every proposition we make must adhere to this core. Old-age pensions are in a real sense measures in behalf of children. They shift the retroactive burdens to shoulders which can bear them with less human cost, and young parents thus released can put at the disposal of the new member of society those family resources he must be permitted to enjoy if he is to become a strong person, unburdensome to the State. Health measures that protect his family from sickness and remove the menacing apprehension of debt, always present in the mind the breadwinner, are child-welfare measures. Likewise, unemployment compensation is a measure in behalf of children in that it protects the home. Most important of all, public-job assurance which can hold the family together over long or repetitive periods of private unemployment is a measure for children in that it assures them a childhood rather than the premature strains of the would-be child breadwinner.

There are at the moment over 7,400,000 children under 16 years of age on the relief rolls. The lives of some of these children, who have never known a time when their father had a steady job, and who, until Federal relief provided the family with a weak cohesive agent, have known nothing but the threat of being scattered, are lost beyond full restoration to their physical and social fulfillment. Their childhood is already destroyed and their future dark and uncertain. In this age group are 300,000 dependent and neglected children; 300,000 to 500,000 children who are physically handicapped; 200,000 who come as delinquents annually before the courts; and the 75,000 illegitimate children born each year. Special kinds of care must be provided for them to save them from a future more tragic than their impaired childhood.

Most of the children on relief lists are less conspicuously unfortunate, but all of them lack at least one major essential for a childhood which will prepare them in 5, 10, or 15 years to be the mainstay of society. Nothing is wrong with their environment but their parents' lack of money to give them opportunities which are taken for granted in more fortunate homes.

## AID TO FATHERLESS CHILDREN

Among these children most especial attention must be given to the children deprived of a father's support usually designated as the objects of mothers' aid or mothers' pension laws, of whom there are now above 700,000 on relief lists. The very phrases "mothers' aid" and "mothers' pensions" place an emphasis equivalent to misconstruction of the intention of these laws. These are not primarily aids to mothers but defense measures for children. They are designed to release from the wage-earning role the person whose natural function is to give her children the physical and affectionate guardianship necessary not alone to keep them from falling into social misfortune, but more affirmatively to rear them into citizens capable of contributing to society.

Legislation for "mothers' pensions" has been in operation in this country for more than 20 years. Such laws exist in 45 States. Yet less than one-third the number of similar families on relief are now actually receiving mothers' pensions. The cost of these pensions is \$37,200,000 a year. Six million dollars of this comes from State governments; local units supply the balance. Less than one-half of the local units authorized to grant mothers' aid are actually doing so. Many others are granting amounts insufficient to defend the children involved. Part of this situation is due to indifference, but in part it is due to the poverty of many local governmental units and to the fact that the Federal Government has been paying the major costs when fatherless families are placed on relief, whereas it makes no contribution to mothers' aid.

When the Federal Government terminates Federal relief, the situation will become immeasurably worse. Neither the return of prosperity nor any of the measures suggested in this report will meet the problem. Mothers' pensions will only partially and inadequately do so as long as the cost falls almost entirely on local governmental units. To meet the situation effectually increased State appropriations and Federal grants-in-aid are essential.

Such Federal grants-in-aid are a new departure, but it is imperative to give them, if the mothers' care method of rearing fatherless families is to become nationally operative. The amount of money required is less than the amount now given to families of this character by the Federal Government by the less desirable route of emergency relief. An initial appropriation of approximately \$25,000,000 per year is believed to be sufficient. If the principle is adopted of making grants equal to one-half of the State and local expenditures (one-third of the total cost), with special assistance to States temporarily incapacitated, this sum might in time rise to a possible \$50,000,000. Federal grants should be made conditional on passage and enforcement of mandatory State laws and on the submission of

approved plans assuring minimum standards in investigation, amounts of grants, and administration. After a specified date State financial participation should be insisted upon. This might take the form either of equalization grants to local units or of per capita grants, as the several States may prefer.

#### CHILD CARE SERVICES

Local services for the protection and care of dependent and physically and mentally handicapped children are generally available in large urban centers, but in less populous areas they are extremely limited or even nonexistent. One-fourth of the States, only, have made provisions on a State-wide basis for county child-welfare boards or similar agencies, and in many of these States the services are still inadequate. With the further depletion of resources during the depression there has been much suffering among many children because the services they need have been curtailed or even stopped. To counteract this tendency and to stimulate action toward the establishment of adequate State or local child-welfare services, a small Federal grant-in-aid, we believe, would be very effective.

#### CHILD AND MATERNAL HEALTH SERVICES

The fact that the maternal mortality rate in this country is much higher than that of nearly all other progressive countries suggests the great need for Federal participation in a Nation-wide maternal and child-health program. From 1922 to 1929 all but three States participated in the successful operation of such a program. Federal funds were then withdrawn and as a consequence State appropriations were materially reduced. Twenty-three States now either have no special funds for maternal and child health or appropriate for this purpose \$10,000 or less. In the meantime, the need has become increasingly acute.

Crippled children and those suffering from chronic diseases such as heart disease and tuberculosis constitute a regiment of whose needs the country became acutely conscious only after the now abandoned child and maternal health program was inaugurated. In more than half the States some State and local funds are now being devoted to the care of crippled children. This care includes diagnostic clinics, hospitalization, and convalescent treatment. But in nearly half the States nothing at all is now being done for these children and in many the appropriations are so small as to take care of a negligible number of children. Since hundreds of thousands of children need this care the situation is not only tragic but dangerous.



We recommend that the Federal Government through the agency of the Children's Bureau should again assume leadership in a Nation-wide child and maternal health program. Such a program should provide for an extension of maternal and child health services, especially in rural areas. It should include (a) education of parents and professional groups in maternal and child care; supervision of the health of expectant mothers, infants, pre-school and school children, and children leaving school for work, (b) provision for transportation, hospitalization, and convalescent care of crippled children in areas of less than 100,000 population. This program should be developed in the States under the leadership of the State departments of health in cooperation with medical and public-welfare agencies and groups concerned with these problems. Federal participation is vital to its success. It should take the form of both grants-in-aid, and of consultative, educational, and promotional work by the Children's Bureau in cooperation with the State health departments.

The appropriation suggested by our Advisory Committee on Security for Children of \$7,000,000 per year is large in proportion to the \$41,139 now appropriated to the Children's Bureau for child and maternal health work. But its cost is small when it is compared with the expenditures for many purposes having far less direct relation to human welfare. Whether the precise amount suggested should be appropriated is a matter for the determination of other agencies. But we cannot too strongly recommend that the Federal Government again recognize its obligation to participate in a Nation-wide program saving the children from the forces of attrition and decay which the depression turned upon them above all others.

#### RISKS ARISING OUT OF ILL HEALTH

Illness is one of the major causes of economic insecurity which threaten people of small means in good times as in bad. In normal times from one-third to one-half of all dependency can be traced to the economic effects of illness. The money loss caused by sickness in families with less than \$2,500 of income per year has been estimated at a total of \$2,400,000,000 per annum, of which \$900,000,000 represents wage loss and \$1,500,000,000 the expenses of medical care.

The seriousness of this hazard, however, lies less in the total loss involved than in its unequal distribution. Nearly half of all people suffer no illness during a normal year, but 7 percent have three or more illnesses and nearly 15 percent have illnesses that disable them for more than a week. Studies of the actual expenditures for medical care in a large number of urban families with incomes ranging from \$1,200 to \$2,000 per year, relating to the years 1928 to 1931,

disclosed that of each 1,000 families, 218 had medical bills in excess of \$100 and 80 in excess of \$200; among the 80, 16 had medical costs ranging from \$400 to \$700, and 4, sickness bills amounting to more than one-half of their incomes.

The figures cited explain why many millions of American families live in dread of sickness. Families with small incomes are compelled to sacrifice other essentials of decent living when serious illness strikes some member, go without needed medical care, or depend upon the gratuitous or near gratuitous services of doctors and hospitals. A mere statement of this situation is sufficient to show that it is both unfair to the medical profession and very costly to the public.

#### PUBLIC HEALTH SERVICES

As stated by the medical advisory board of this committee, in a brief progress report recently filed:

A logical step in dealing with the risks and losses of sickness is to begin by preventing sickness so far as is possible.

Much progress has been made in this respect, yet the fact remains that despite great advances in medicine and public-health protection, millions of our people are suffering from diseases and thousands die annually from causes that are preventable. The mortality of adults of middle and older ages has not been appreciably diminished. With the changing age composition of our population the task of health conservation must be broadened to include adults as well as children. Even minimum public-health facilities and services do not now exist in many large areas. Of 3,000 counties, only 528 have full-time health supervision and only 21 percent of the local health departments were rated in 1933 as having developed a personnel and service providing a satisfactory minimum for the population and the existing problems.

Evidence is accumulating that the health of a large proportion of the population is being affected unfavorably by the depression. The rate of disabling sickness in 1933 among families which had suffered the most severe decline in income during the period 1929 to 1932 was 50 percent higher than the rate in families whose incomes were not reduced. For the first time in many decades the death rate in our large cities is higher this year than it was last year despite the absence of any serious epidemics. In the face of these evidences of increased need local appropriations for public health have been decreased on the average by 20 percent since 1930. The average per capita expenditures from tax funds for public health in 77 cities in 1934 were 58 cents as contrasted with 71 cents in 1931. It is not too much to say that in many parts of the country the men and women in public-health work are very discouraged.

In this situation there is great need for a Nation-wide program for the extension of preventive public-health services. As was well stated by the medical advisory board:

At the present time appropriations for public-health work are insufficient in many communities, whereas a fuller application of modern preventive medicine, made possible by larger public appropriations, would not only relieve such suffering but would also prove an actual financial economy. Federal funds, expended through the several States, in association with their own State and local public-health expenditures, are, in our opinion, necessary to accomplish these purposes and we recommend that substantial grants be made.

In accord with these principles and following the specific suggestions of the Advisory Committee on Public Health, we recommend: (1) Grants-in-aid to local areas unable to finance public-health programs with State and local resources, to be allocated through State departments of health; (2) direct aid to States in the development of State health services and the training of personnel for State and local health work; (3) additional personnel within the United States Public Health Service for the investigation of disease and sanitary problems which are of interstate or national interest and the detailing of personnel to other Federal bureaus and to States and localities. The Advisory Committee on Public Health suggested that in order to carry out these policies the total appropriation to the Public Health Service be increased to \$10,000,000 per year, in contrast with \$5,000,000—4 cents per capita—now spent by the Federal Government in all its departments for human health services. The advisory committee also reported that the needs of the country are considerably in excess of the additional expenditures suggested but expressed the view that a larger amount cannot be efficiently spent until necessary additional personnel has been trained and further tests of practical procedures have been made through which certain diseases can be more effectively controlled. It is not within our province to say whether the precise amount suggested should be appropriated, but we strongly endorse the recommendation for increased Federal participation in the prevention of ill health.

It has long been recognized that the Federal, State, and local Governments all have responsibilities for the protection of all of the population against disease. The Federal Government has recognized its responsibility in this respect in the public-health activities of several of its departments. There also are well-established precedents for Federal aid for State health administration and for local public facilities, and for the loan of technical personnel to States and localities. What we recommend involves no departure from previous practices, but an extension of policies that have long been followed and are of proven worth. What is contemplated is a



Nation-wide public-health program, financially and technically aided by the Federal Government, but supported and administered by the State and local health departments.

#### HEALTH INSURANCE

The development of more adequate public-health services is the first and most inexpensive step in furnishing economic security against illness. There remains the problem of enabling self-supporting families of small and moderate means to budget against the loss of wages on account of illness and against the costs of medical services needed by their members. The nature of this problem and the nature of the risks which it involves calls for an application of the insurance principle to replace the variable and uncertain costs for individuals by the fixed and predictable costs for large groups of individuals.

Insurance against the costs of sickness is neither new nor novel. In the United States we have had a long experience with sickness insurance both on a nonprofit and commercial basis. Both forms have been inadequate in respect to the protection they furnish, and the latter—commercial insurance—has in addition been too expensive for people of small means. Voluntary insurance holds no promise of being much more effective in the near future than it has been in the past. Our only form of compulsory insurance has been that which is provided against industrial accidents and occupational diseases under the workmen's compensation laws. In contrast other countries of the world have had experience with compulsory health or sickness insurance applied to over a hundred million persons and running over a period of more than 50 years. Nearly every large and industrial country of the world except the United States has applied the principle of insurance to the economic risks of illness.

The committee's staff has made an extensive review of insurance against the risks of illness, including the experience which has accumulated in the United States and in other countries of the world. Based upon these studies the staff has prepared a tentative plan of insurance believed adequate for the needs of American citizens with small means and appropriate to existing conditions in the United States. From the very outset, however, our committee and its staff have recognized that the successful operation of any such plan will depend in large measure upon the provision of sound relations between the insured population and the professional practitioners or institutions furnishing medical services under the insurance plan. We have accordingly submitted this tentative plan to our several professional advisory groups organized for this purpose. These advisory groups have requested an extension of time for the further



consideration of these tentative proposals, and such an extension has been granted until March 1, 1935. In addition, arrangements have been effected for close cooperative study between the committee's technical staff and the technical experts of the American Medical Association.

Until the results of these further studies are available, we cannot present a specific plan of health insurance. It seems desirable, however, to advise the professions concerned and the general public of the main lines along which the studies are proceeding. These may be indicated by the following broad principles and general observations which appear to be fundamental to the design of a sound plan of health insurance.

1. The fundamental goals of health insurance are: (a) The provision of adequate health and medical services to the insured population and their families; (b) the development of a system whereby people are enabled to budget the costs of wage loss and of medical costs; (c) the assurance of reasonably adequate remuneration to medical practitioners and institutions; (d) the development under professional auspices of new incentives for improvement in the quality of medical services.

2. In the administration of the services the medical professions should be accorded responsibility for the control of professional personnel and procedures and for the maintenance and improvement of the quality of service; practitioners should have broad freedom to engage in insurance practice, to accept or reject patients, and to choose the procedure of remuneration for their services; insured persons should have freedom to choose their physicians and institutions; and the insurance plan shall recognize the continuance of the private practice of medicine and of the allied professions.

3. Health insurance should exclude commercial or other intermediary agents between the insured population and the professional agencies which serve them.

4. The insurance benefits must be considered in two broad classes: (a) Cash payments in partial replacement of wage-loss due to sickness and for maternity cases, and (b) health and medical services.

5. The administration of cash payments should be designed along the same general lines as for unemployment insurance and, so far as may be practical, should be linked with the administration of unemployment benefits.

6. The administration of health and medical services should be designed on a State-wide basis, under a Federal law of a permissive character. The administrative provisions should be adapted to agricultural and sparsely settled areas as well as to industrial sections, through the use of alternative procedures in raising the funds and furnishing the services.

7. The costs of cash payments to serve in partial replacement of wage loss are estimated as from 1 to  $1\frac{1}{4}$  percent of pay roll.

8. The costs of health and medical services, under health insurance, for the employed population with family earnings up to \$3,000 a year, is not primarily a problem of finding new funds, but of budgeting present expenditures so that each family or worker carries an average risk rather than an uncertain risk. The population to be covered is accustomed to expend, on the average, about  $4\frac{1}{2}$  percent of its income for medical care.

9. Existing health and medical services provided by public funds for certain diseases or for entire populations should be correlated with the services required under the contributory plan of health insurance.

10. Health and medical services for persons without income, now mainly provided by public funds, could be absorbed into a contributory insurance system through the payment by relief or other public agencies of adjusted contributions for these classes.

11. The role of the Federal Government is conceived to be principally (a) to establish minimum standards for health insurance practice, and (b) to provide subsidies, grants, or other financial aids or incentives to States which undertake the development of health insurance systems which meet the Federal standards.

#### RESIDUAL RELIEF

Unemployment has become an agglomeration of many problems. In the measures here proposed we are attempting to segregate and provide for distinguishable groups in practical ways.

One of these large groups is often referred to as the "unemployables." This a vague term, the exact meaning of which varies with the person making the classification. Employability is a matter of degree; it involves not merely willingness and ability to work but also the capacity to secure and hold a job suited to the individual. Relatively few people regard themselves as unemployables, and, outside of the oldest age groups, the sick, the widowed, and deserted mothers, most adults would, in highly prosperous times, have some employment.

The fact remains that even before the depression there were large numbers of people who worked only intermittently, who might be described as being on the verge of unemployability—many of them practically dependent on private or public charity. These people are now all on relief lists, plus many others who, before the depression, were steady workers but who have now been unemployed so long that they are considered substandard from the point of view of employability.

There are also large numbers of young people who have not worked or have worked but little in private employment since they left school, primarily because they came into the industrial group during the years of depression. Then there are the physically handicapped, among whom unemployment has been particularly severe. Included on the relief lists also are an estimated total of 100,000 families in "stranded industrial communities," where they have little likelihood of ever again having steady employment. There are 300,000 impoverished farm families whose entire background is rural and whose best chance of again becoming self-supporting lies on the farm.

Policies which we believe well calculated to rehabilitate many of these groups are now being pursued by the Government. These clearly need to be carried through and will require considerable time for fruition. This is especially true of the program for rural rehabilitation and the special work and educational programs for the unemployed young people. There are other serious problems, among them those of populations attached to declining overmanned industries. Only through the active participation of the Federal Government can these problems be solved and the many hundreds of thousands of individuals involved be salvaged.

As for the genuine unemployables—or near unemployables—we believe the sound policy is to return the responsibility for their care and guidance to the States. In making this recommendation we are not unmindful of the fact that the States differ greatly as regards wealth and income. We recognize that it would impose an impossible financial burden on many State and local governments if they were forced to assume the entire present relief costs. That, however, is not what we propose. We suggest that the Federal Government shall assume primary responsibility for providing work for those able and willing to work; also that it aid the States in giving pensions to the dependent aged and to families without breadwinners. We, likewise, contemplate the continued interest of the Federal Government for a considerable time to come in rural rehabilitation and other special problems beyond the capacity of any single State. With the Federal Government carrying so much of the burden for pure unemployment, the State and local governments we believe should resume responsibility for relief. The families that have always been partially or wholly dependent on others for support can best be assisted through the tried procedures of social case work, with its individualized treatment.

We are anxious, however, that the people who will continue to need relief shall be given humane and intelligent care. Under the stimulus of Federal grants, the administration of relief has been modernized throughout the country. In this worst depression of all time, human suffering has been alleviated much more adequately



than ever before. It is not too much to say that this is the only great depression in which a majority of the people in need have really received relief. It would be tragic if these gains were to be lost.

There is some danger that this may occur. While the standards of relief and administration have been so greatly improved in these last years of stress and strain, the old poor laws remain on the statute books of nearly all States. When relief is turned back to the States it should be administered on a much higher plane than that of the old poor laws.

The States should substitute modernized public assistance laws for the ancient, outmoded poor laws. They should replace uncentralized poor-law administrations with unified, efficient State and local public-welfare departments such as already exist in some States and for which all States have a nucleus in their State Emergency Relief Administrations. The Federal Government should insist as a condition of any grants in aid that standard relief practice shall be used and that the States who receive Federal moneys preserve the gains that have been made, in the care and treatment of the "unemployables." Informed public opinion can also do much and we rely upon it to thus safeguard the welfare of these unfortunate human beings and fellow citizens.

#### ADMINISTRATION

The Federal Government has long had important functions in relation to social welfare. In the depression these activities have grown apace, particularly in connection with relief. For some time the Government has had the major responsibility for the assistance to above one-sixth of the entire population of the country. Hereafter, the Federal Government will still have large and continuing responsibility for many parts of the heretofore undifferentiated relief problem and some of our recommendations contemplate expansion in Federal social-welfare activities.

The importance which the social-welfare activities of the Federal Government have assumed is such that they should clearly all be administratively coordinated and related. The detailed working out of such coordination does not fall within the scope of this committee, but we deem it important to direct attention to the desirability of early action in this matter.

#### ACCIDENT COMPENSATION

Industrial accidents were the first of the major hazards of the modern economic system against which safeguards were provided in this country. These are represented on the one hand by safety



laws and orders and the voluntary efforts of employers to reduce accidents, and, on the other, by the workmen's accident compensation laws now in force in all but four States.

These safeguards have, on the whole, worked quite beneficially, but we still have far too many industrial accidents, and the accident compensation laws are sadly lacking in uniformity and many of them are very inadequate. In view of the start we have made, substitution of the continental European form of contributory accident insurance for our noncontributory accident compensation laws, nationalization of accident compensation, or any other fundamental change is unwarranted. There should be no complacency, however, regarding either the progress we have made toward the prevention of industrial accidents or the adequacy of our compensation laws.

In outlining a long-time program for economic security, we make the following recommendations looking toward more adequately meeting the hazard of industrial accidents.

(1) The Department of Labor should further extend its services in promoting uniformity and raising the standards of both the safety laws and the accident compensation laws of the several States and their administration.

(2) The four States which do not now have accident compensation laws are urged to enact such laws, and passage of accident compensation acts for railroad employees and maritime workers is recommended.

#### EMPLOYMENT SERVICE

Great progress has been made in the last 18 months in the development of a more efficient employment service in this country. The National Reemployment Service, set up to facilitate enrolling labor for Public Works projects, has been extended into every State. Under the Wagner-Peyser Act, cooperative arrangements have been developed in the majority of the leading industrial States for the joint conduct of employment offices connected with the United States Employment Service. Through insistence upon a merit basis for selection, an efficient personnel is being developed within the Employment Service.

The Employment Service, however, will have to be still further expanded and improved if the measures for economic security we have suggested are to be put into efficient operation. It is through the employment offices that the unemployment compensation benefits and also the old-age annuities are to be paid. These offices must function as efficient placement agencies if the "willingness-to-work" test of eligibility for benefits in unemployment compensation is to be made effective. They now function to select the employees on Public Works projects and should have a similar relation to any

expanded public-employment program. Above all, the employment offices should strive to become genuine clearing houses for all labor, at which all unemployed workers will be registered and to which employers will naturally turn when seeking employees.

To perform these important functions, a Nation-wide system of employment offices is vital. The nucleus for such a system exists in the United States Employment Service and the National Reemployment Service, which have always been combined "at headquarters" and are now being consolidated in States where both have existed. No fundamental change in the relation of the Federal and State Governments to the employment offices is deemed necessary, but some amendment of the Wagner-Peyser Act is needed to enable the employment offices to perform all the functions our program contemplates. The larger funds required will come from the portion of the Federal pay-roll tax retained for administrative purposes.

Closely related to the development of a more efficient Employment Service is the Federal regulation of private employment agencies doing an interstate business. The interstate business of such private agencies cannot be regulated by the States, and, for the protection no less of the reputable agencies than of the workers, should be strictly regulated by the Federal Government.

#### EDUCATIONAL AND REHABILITATION SERVICES

Education, training, and vocational guidance are of major importance in obtaining economic security for the individual and the Nation. And we have at various points in this report made brief references to the importance of vocational guidance and training in the readjustments which are necessary in a coordinated attack on the problem of individual economic security. We here wish to further emphasize that the educational and vocational equipment of individuals is a major factor in their economic security.

At this time it is tragically evident that education and training are not a guarantee against dependency and destitution. Yet there is no reason for losing faith in our democratic system of education; the existing situation merely has brought into bold relief the fact that education, to fulfill its purposes, must be related much more than it has been to the economic needs of individuals. It has become apparent particularly that education cannot be regarded as completed upon leaving school. It has brought out poignantly the difference between schooling and education. In a day and age of rapidly changing techniques and market demands, many people will find it necessary to make readjustments long after they have first entered industry. Adjustment of our educational content and technique to this situation is a vital need in a long-range program for economic security.

In the years immediately ahead, when there is certain to be a large problem in the economic rehabilitation of so many individuals, there is a peculiar need for educational and training programs which will help these worst victims of the depression to regain self-respect and self-support. While men have so much leisure time, those who can profit from further education and training should be afforded an opportunity to make such use of their leisure. Particularly for the young workers and those who have little hope of returning to their old occupations, the need for educational and vocational training and retraining programs is clearly indicated.

Education has been regarded in this country as a responsibility of the State and local governments and should remain so. In the joint attack on economic security which we suggest, Federal participation, however, is most desirable. To a considerable extent the Federal Government is already participating in this endeavor, and we believe that it should continue to do so, if possible, on an extended scale.

What to do with regard to the army of unemployed youths continues to be one of the gravest problems of this Nation. Obviously what the great majority need is a chance to work at some job, a chance to develop skills and techniques. In any program of employment they must be given their fair share of available jobs. For many, however, a training program would be of great benefit. This can be developed satisfactorily only with the assistance of the Federal Government. The local school facilities are not able to take care of their normal tasks, and find it impossible to develop needed vocational-training programs at all commensurate with this problem.

At this point, we desire to call special attention to the importance of special programs for the physically handicapped, of whom there are many millions in this country. Since the passage in 1920 of the Federal Vocational Rehabilitation Act, the Government has been assisting the States in a service of individual preparation for and placement in employment of persons vocationally handicapped through industrial or public accident, disease, or congenital causes.

Forty-five States are now participating in this program and, since it was launched, approximately 68,000 permanently disabled persons have benefited from this service. The work done has shown gratifying annual increases, even in the depression, but is still small in comparison with the need. The desirability of continuing this program and correlating it with existing and contemplated services to workers in the general program of economic security we believe to be most evident.

## OTHER MEASURES FOR ECONOMIC SECURITY

We have expressed our views upon many different measures and policies which we deem essential in a program to protect individuals against the many hazards which lead to destitution and dependency, but we have by no means exhausted the subject. We have dealt with the hazards which afflict the largest numbers—unemployment, old age, ill health, premature loss of the family breadwinner, industrial accidents, lack of training—but we have not dealt with other hazards equally serious for some individuals, such as invalidity, nonindustrial accidents, and other afflictions.

Parts of the program we suggest apply to practically the entire population, particularly the grants-in-aid to the noncontributory old-age pensions, the expansion of preventive public-health services, the aid to mothers' pensions, the maternal and child-health services for rural areas, the services for crippled children, the expansion of the Employment Service, and the policy of employment assurance. Two of the major measures suggested—old-age insurance and unemployment compensation—have more limited application. The former will apply to all employed persons, but will not include in its compulsory provisions proprietors, tenants, or the self-employed. Unemployment compensation will have slightly narrower scope, excluding those in small establishments.

Agricultural workers, domestic servants, home workers, and the many self-employed people constitute large groups in the population who have generally received little attention. In these groups are many who are at the very bottom of the economic scale. We believe that more attention will have to be given to these groups than they have received heretofore. We cannot be satisfied that we have a reasonably complete program for economic security unless some degree of protection is given these groups now generally neglected.

While in the short space of a few months we have made a quite comprehensive survey of the entire problem of economic security for the individual, much further thought needs to be given to many aspects of this problem.

Study of the suggested problems not dealt with in this report and still other aspects of a comprehensive economic security program belong logically among the duties of the social insurance board, if one is established. So do problems of extending the coverage of unemployment compensation and old-age insurance, and the task of correlating the experience gained under these measures to make them better instruments for the accomplishment of the purposes for which they are designed.



## CONCLUSION

The program for economic security we suggest follows no single pattern. It is broader than social insurance and does not attempt merely to copy European methods. In placing primary emphasis on employment, rather than unemployment compensation, we differ fundamentally from those who see social insurance as an all-sufficient program for economic security. We recommend wide application of the principles of social insurance, but not without deviation from European models. Where other measures seemed more appropriate to our background or present situation, we have not hesitated to recommend them in preference to the European practices. In doing so we have recommended the measures at this time which seemed best calculated under our American conditions to protect individuals in the years immediately ahead from hazards which plunge them into destitution and dependency. This, we believe, is in accord with the method of attaining the definite goal of the Government, social justice, which was outlined in the message of January 4, 1935. "We seek it through tested liberal traditions, through processes which retain all of the deep essentials of that republican form of government first given to a troubled world by the United States."

We realize that these measures we recommend will not give complete economic security. As outlined in the messages of June 8, 1934, and January 4, 1935, the safeguards to which this report relates represent but one of three major aspects of economic security for men, women, and children. Nor do we regard this report and our recommendations as exhaustive of the particular aspect which this committee was directed to study—"the major hazards and vicissitudes of life." A complete program of economic security "because of many lost years, will take many future years to fulfill."

The initial steps to bring this program into operation should be taken now. This program will involve considerable cost, but this is small as compared with the enormous cost of insecurity. The measures we suggest should result in the long run in material reduction in the cost to society of destitution and dependency, and we believe, will immediately be helpful in allaying those fears which open the door to unsound proposals. The program will promote social and industrial stability and will operate to enlarge and make steady a widely diffused purchasing power upon which depends the high American standard of living and the internal market for our mass production, industry, and agriculture.

## APPENDIX

### LIST OF COMMITTEES ADVISORY TO THE COMMITTEE ON ECONOMIC SECURITY

#### ADVISORY COUNCIL

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Sam Lewisohn, vice president Miami Copper Co., New York City.  
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Grace Abbott, University of Chicago, and former chief United States Children's Bureau.  
Raymond Moley, editor Today, and former Assistant Secretary of State.  
George H. Nordlin, chairman grand trustees, Fraternal Order of Eagles, St. Paul, Minn.  
George Berry, president International Printing Pressmen and Assistants' Union, Tennessee.  
John G. Winant, Governor New Hampshire.  
Mary Dewson, National Consumers League, New York City.  
Louis J. Taber, master National Grange, Cleveland.  
Monsieur John A. Ryan, director department of social action, National Catholic Welfare Conference, Washington, D. C.  
Helen Hall, president National Federation of Settlements and director of the Henry Street Settlement, New York City.  
Joel D. Hunter, general superintendent United Charities of Chicago.  
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A. H. Hansen, Chief Economic Analyst, Department of State, chairman unemployment insurance subcommittee.  
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SUPPLEMENT  
TO  
REPORT TO THE PRESIDENT  
OF THE  
COMMITTEE ON ECONOMIC SECURITY

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TABLE 2.—*Families and persons receiving emergency relief, continental United States*

Months	Resident families and persons receiving relief under the general relief and special programs					Number of trans- ients receiving relief <sup>1</sup>
	Families	Single persons	Total families and single persons	Total persons	Percent of total popula- tion <sup>1</sup>	
1933						
January.....	3,850,000	(*)	(*)	(*)	(*)	(*)
February.....	4,140,000	(*)	(*)	(*)	(*)	(*)
March.....	4,560,000	(*)	(*)	(*)	(*)	(*)
April.....	4,475,322	(*)	(*)	(*)	(*)	(*)
May.....	4,252,443	(*)	(*)	(*)	(*)	(*)
June.....	3,789,026	(*)	(*)	(*)	(*)	(*)
July.....	3,451,874	455,000	3,906,874	15,282,000	12	(*)
August.....	3,351,810	412,000	3,763,810	15,077,000	12	(*)
September.....	2,984,975	403,000	3,387,975	13,338,000	11	(*)
October.....	3,010,516	436,000	3,446,516	13,618,000	11	(*)
November.....	3,365,114	461,315	3,826,429	15,080,465	12	(*)
December.....	2,631,020	438,431	3,069,451	11,664,860	10	(*)
1934						
January.....	2,486,274	456,469	2,942,743	11,086,598	9	(*)
February.....	2,599,975	532,036	3,132,011	11,627,415	9	126,873
March.....	3,070,855	563,138	3,633,993	13,494,282	11	145,119
April.....	3,847,235	590,007	4,437,242	16,840,389	14	164,244
May.....	3,815,926	617,735	4,433,661	17,228,458	14	174,138
June.....	3,757,971	559,502	4,317,473	16,833,294	14	187,282
July.....	3,867,047	842,362	4,709,409	17,301,734	14	195,051
August.....	4,059,605	569,877	4,629,482	18,187,193	15	206,173
September.....	4,096,725	656,215	4,752,940	18,410,334	15	221,734
October.....	4,106,681	720,853	4,827,534	18,450,567	15	235,758
November <sup>2</sup> .....	4,225,000	750,000	4,975,000	18,900,000	15	266,000

<sup>1</sup> Based on 1930 Census of Population.<sup>2</sup> Middle of month figures, excluding local homeless which are included under general relief program.<sup>3</sup> Partially estimated.<sup>4</sup> Not available.<sup>5</sup> Partially estimated to cover the rural rehabilitation program on which reports are not yet complete.<sup>6</sup> Preliminary.

Source: Division of Research, Statistics, and Finance, Federal Emergency Relief Administration.

TABLE 3.—*Cases <sup>1</sup> receiving emergency relief—direct, work, special programs*

1934	Grand total	General relief			Special programs <sup>1</sup>
		Total	Work programs	Direct relief only	
April.....	4,437,242	4,437,242	1,176,818	3,260,424	(*)
May.....	4,433,661	4,320,187	1,343,214	2,976,973	113,474
June.....	4,317,473	4,237,425	1,477,753	2,759,672	80,048
July.....	4,409,409	4,368,195	1,723,295	2,644,900	41,214
August.....	4,629,482	4,582,434	1,922,029	2,660,405	47,048
September.....	4,752,940	4,619,496	1,950,728	2,668,768	133,444
October.....	4,827,534	4,654,402	1,998,167	2,656,235	173,132
November <sup>4</sup> .....	4,975,000	4,785,000	2,150,000	2,635,000	190,000

<sup>1</sup> Cases include each family or single person on relief, not counting transient single persons.<sup>2</sup> Rural rehabilitation program, emergency education program, student aid; excludes transients.<sup>3</sup> Cases aided under special programs in April were included in the general relief program.<sup>4</sup> Preliminary.

Source: Division of Research, Statistics, and Finance, Federal Emergency Relief Administration.

TABLE 4.—Obligations incurred for emergency relief from all public funds by source of funds, January 1933 through November 1934, by months and by quarters<sup>1</sup>

	Obligations incurred for emergency relief						
	Total	Federal funds		State funds		Local funds	
		Amount	Per-cent	Amount	Per-cent	Amount	Per-cent
1933							
January.....	\$60,827,160.26	\$31,175,001.46	51.3	\$8,898,288.71	14.6	\$20,753,870.69	34.1
February.....	67,375,423.32	39,850,235.88	59.1	5,921,376.42	8.8	21,603,811.02	32.1
March.....	81,205,631.61	51,355,220.07	63.2	5,212,394.33	6.4	24,638,017.21	30.4
First quarter.....	209,408,215.79	122,380,457.41	58.4	20,032,059.46	9.6	66,995,698.92	32.0
April.....	73,010,800.68	45,373,968.80	62.1	8,182,877.70	11.2	19,453,954.18	26.7
May.....	70,806,338.08	48,803,456.80	68.9	5,017,248.11	7.1	16,985,633.17	24.0
June.....	66,339,206.68	42,523,714.87	64.1	8,038,872.89	12.1	15,776,618.92	23.8
Second quarter.....	210,156,345.44	136,701,140.47	65.0	21,238,998.70	10.1	52,216,206.27	24.9
July.....	60,155,873.87	37,482,328.17	62.3	7,576,554.71	12.6	15,096,990.99	25.1
August.....	61,470,496.37	39,781,831.27	64.7	8,726,266.40	14.2	12,962,398.70	21.1
September.....	59,346,338.14	36,289,188.33	61.1	11,093,954.69	18.7	11,963,195.12	20.2
Third quarter.....	180,972,708.38	113,553,347.77	62.8	27,396,775.80	15.1	40,022,584.81	22.1
October.....	64,888,913.42	40,415,353.16	62.3	10,186,795.50	15.7	14,286,764.77	22.0
November.....	70,810,514.27	39,796,429.13	56.2	18,633,766.17	26.3	12,380,318.97	17.5
December.....	66,526,330.37	27,755,055.43	49.1	18,768,833.14	33.2	10,002,441.80	17.7
Fourth quarter.....	192,225,758.06	107,966,837.71	56.2	47,589,394.81	24.7	36,669,525.54	19.1
Total, 1933.....	792,763,027.67	480,601,783.36	60.6	116,257,228.77	14.7	195,904,015.54	24.7
1934							
January.....	53,880,834.01	29,065,736.51	54.0	16,124,460.00	29.9	8,690,637.50	16.1
February.....	57,668,212.60	26,462,858.11	45.9	21,832,729.56	37.9	9,372,624.93	16.2
March.....	69,794,802.92	32,522,395.84	46.6	25,615,747.44	36.7	11,656,659.64	16.7
First quarter.....	181,343,849.53	88,050,990.46	48.5	63,572,937.00	35.1	29,719,922.07	16.4
April.....	113,134,286.74	82,299,551.45	72.7	17,642,023.89	15.6	13,192,711.40	11.7
May <sup>2</sup> .....	129,222,770.62	96,741,145.12	74.9	12,647,639.02	9.8	19,833,986.48	15.3
June <sup>3</sup> .....	125,198,649.88	92,084,137.06	73.6	11,777,402.31	9.4	21,337,110.51	17.0
Second quarter.....	367,555,707.24	271,124,833.63	73.8	42,067,065.22	11.4	54,363,808.39	14.8
July <sup>3</sup> .....	130,953,215.11	95,146,288.68	72.6	13,061,941.23	10.0	22,744,985.20	17.4
August <sup>3</sup> .....	149,424,555.07	113,308,571.80	75.8	12,226,882.75	8.2	23,889,100.52	16.0
September <sup>3</sup> .....	143,227,846.44	108,550,186.27	75.8	11,406,614.12	8.0	23,262,046.05	16.2
Third quarter.....	423,605,616.62	317,014,046.75	74.8	36,695,438.10	8.7	69,896,131.77	16.5
October <sup>3</sup> .....	156,747,867.63	121,949,841.00	77.8	13,950,560.23	8.9	20,847,466.40	13.3
November <sup>3</sup> .....	172,750,000.00	139,430,000.00	80.7	10,670,000.00	6.2	22,650,000.00	13.1
Total, 1934 <sup>3</sup> .....	1,302,063,041.02	937,569,711.84	72.0	166,956,000.55	12.8	197,477,328.63	15.2
Total, 23 months <sup>3</sup> .....	2,094,766,068.69	1,418,171,495.20	67.7	283,213,229.32	13.5	393,381,344.17	18.8

<sup>1</sup> Includes obligations incurred for relief extended under the general relief program, under all special programs, and for administration; beginning April 1934 these figures also include purchases of materials, supplies, and equipment, rentals of equipment (such as team and truck hire), earnings of nonrelief persons employed, and other expense incident to the work program. Does not include about \$90,000,000 expended for the C. W. A., of which \$840,000,000 was derived from Federal funds and \$150,000,000 from State and local funds.

<sup>2</sup> Break-down partially estimated.

<sup>3</sup> Preliminary.

Source: Division of Research, Statistics, and Finance, Federal Emergency Relief Administration, Jan. 7, 1935. Table based on reports from State and local relief administrations.

TABLE 5.—*Estimate of unemployment in employments which are customarily covered by unemployment-insurance plans*

Year:	Estimated percent of unemployment	Year—Continued.	Estimated percent of unemployment
1922	13.1	1928	8.5
1923	7.3	1929	6.1
1924	9.4	1930	15.3
1925	7.8	1931	26.6
1926	7.4	1932	39.0
1927	8.3	1933	39.2

Source: Estimates of the Committee on Economic Security. It should be noted that these unemployment rates are indicative only of the unemployment occurring in the group of gainful workers which are customarily covered by unemployment-insurance plans, and that they do not represent the unemployment for the entire working population. These rates are higher than those for all gainful workers, because the incidence of unemployment borne by the group covered is greater than for the working population as a whole.

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TABLE 6.—States arrayed by average percentage of nonagricultural unemployment—April 1930; 1933 average; and 1930-33 average

April 1930			1933 average		1930-33 average			
State	Percent of gainful workers unem- ployed	Ratio to average of all States	State	Percent of gainful workers unem- ployed	Ratio to average of all States	State	Percent of gainful workers unem- ployed	Ratio to average of all States
All States	8.5	Percent 100.0	All States	33.2	Percent 100.0	All States	25.8	Percent 100.0
1. Michigan	13.9	163.5	Michigan	45.9	138.3	Michigan	34.3	132.9
2. Rhode Island	11.2	131.8	Pennsylvania	40.2	121.1	Rhode Island	29.6	114.7
3. Montana	10.7	125.9	Arkansas	39.2	118.1	New Jersey	28.8	111.6
4. Illinois	10.3	121.2	New Jersey	38.8	116.9	Montana	28.4	110.1
5. Oregon	10.1	118.8	Arizona	38.6	116.3	Pennsylvania	28.3	109.7
6. Nevada	9.8	115.3	New Mexico	38.3	115.4	Illinois	28.0	108.5
7. Ohio	9.5	111.8	New York	38.1	114.8	New York	27.8	107.9
8. Massachusetts	9.4	110.6	Rhode Island	36.6	110.2	Nevada	27.8	107.9
9. Pennsylvania	9.0	106.9	Florida	36.6	110.2	Arizona	27.7	107.4
10. Colorado	8.9	104.7	Montana	36.4	109.6	Florida	27.1	105.0
11. New Jersey	8.9	104.7	Illinois	35.7	107.5	Massachusetts	27.0	104.7
12. California	8.8	103.5	Nevada	35.4	106.6	Ohio	26.9	104.3
13. New York	8.7	102.4	Colorado	35.3	106.3	Indiana	26.6	103.1
14. Indiana	8.6	101.2	Massachusetts	34.8	104.8	Connecticut	26.4	102.3
15. Washington	8.6	101.2	Utah	34.3	103.3	New Mexico	26.2	101.6
16. Utah	8.5	100.0	Wyoming	33.9	102.1	Utah	25.7	99.6
17. Florida	8.5	100.0	Indiana	33.4	100.6	Arkansas	25.6	99.2
18. Oklahoma	8.4	98.8	Ohio	32.2	97.0	Colorado	25.1	97.3
19. Maine	8.2	96.5	Connecticut	31.7	95.5	Washington	24.4	94.6
20. Minnesota	8.2	96.5	Texas	31.6	95.2	Wyoming	24.2	93.8
21. Vermont	8.0	94.1	Missouri	31.5	94.9	Missouri	24.2	93.8
22. North Carolina	7.9	92.9	Iowa	31.0	93.4	Oklahoma	24.2	93.8
23. New Hampshire	7.9	92.9	Vermont	30.9	93.1	Louisiana	24.1	93.4
24. Kentucky	7.8	91.8	Washington	30.7	92.5	Vermont	24.1	93.4
25. Connecticut	7.8	91.8	Louisiana	30.6	92.2	California	24.0	93.0



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TABLE 6.—States arrayed by average percentage of nonagricultural unemployment—April 1930; 1933 average; and 1930-33 average—Contd.

State	April 1930			1933 average			1930-33 average		
	Percent of gainful workers unem- ployed	Ratio to average of all States	State	Percent of gainful workers unem- ployed	Ratio to average of all States	State	Percent of gainful workers unem- ployed	Ratio to average of all States	Percent
26. Wisconsin.....	7.8	91.8	Minnesota.....	30.3	91.3	Texas.....	23.9	92.6	92.6
27. Missouri.....	7.7	90.6	Nebraska.....	30.2	91.0	Wisconsin.....	23.8	92.2	92.2
28. Louisiana.....	7.7	90.6	West Virginia.....	29.4	88.6	Minnesota.....	23.4	90.7	90.7
29. Idaho.....	7.6	89.4	Maryland.....	29.4	88.6	Maryland.....	23.4	90.7	90.7
30. West Virginia.....	7.4	87.1	California.....	29.2	88.0	West Virginia.....	23.2	89.9	89.9
31. New Mexico.....	7.4	87.1	Oklahoma.....	29.2	88.0	Alabama.....	23.2	89.9	89.9
32. Arizona.....	7.4	87.1	Alabama.....	29.1	87.7	Maine.....	21.8	84.5	84.5
33. Wyoming.....	7.1	83.5	Wisconsin.....	28.8	86.7	Iowa.....	21.8	84.5	84.5
34. Texas.....	6.7	78.8	Idaho.....	28.5	85.8	Idaho.....	21.8	84.5	84.5
35. Arkansas.....	6.5	76.5	North Dakota.....	27.3	82.2	New Hampshire.....	21.8	84.5	84.5
36. Kansas.....	6.2	72.9	Kansas.....	26.9	81.0	Oregon.....	21.7	81.1	81.1
37. North Dakota.....	6.1	71.8	Virginia.....	25.6	77.1	Nebraska.....	21.5	83.3	83.3
38. Virginia.....	5.9	69.4	Mississippi.....	25.1	75.6	North Carolina.....	21.3	82.6	82.6
39. Nebraska.....	5.9	69.4	Kentucky.....	22.7	68.4	Virginia.....	21.1	81.8	81.8
40. Georgia.....	5.9	69.4	South Dakota.....	22.7	68.4	Kansas.....	21.0	81.4	81.4
41. Maryland.....	5.8	68.2	Tennessee.....	22.6	68.1	Kentucky.....	20.8	80.6	80.6
42. Alabama.....	5.6	65.9	Oregon.....	21.3	64.2	Tennessee.....	20.4	79.1	79.1
43. Iowa.....	5.4	63.5	New Hampshire.....	21.3	64.2	Mississippi.....	19.4	75.2	75.2
44. Tennessee.....	5.3	62.4	District of Columbia.....	21.0	63.3	North Dakota.....	18.9	73.3	73.3
45. South Carolina.....	5.2	61.2	Maine.....	20.3	61.1	District of Columbia.....	18.3	70.9	70.9
46. Delaware.....	5.2	61.2	North Carolina.....	18.4	55.4	Delaware.....	18.3	70.9	70.9
47. District of Columbia.....	4.9	57.6	Delaware.....	16.7	50.3	South Dakota.....	17.5	67.8	67.8
48. Mississippi.....	4.6	54.1	South Carolina.....	12.9	38.9	South Carolina.....	17.2	66.7	66.7
49. South Dakota.....	3.9	45.9	Georgia.....	12.6	38.0	Georgia.....	17.0	65.9	65.9

Source: Estimates derived from population and employment data reported by the U. S. Bureau of the Census, the U. S. Bureau of Agricultural Economics, and the U. S. Bureau of Labor Statistics.

TABLE 7.—Countries in which compulsory unemployment-insurance laws have been enacted and number of workers covered in each

Country <sup>1</sup>	Date of law <sup>2</sup>	Number insured <sup>3</sup>
Australia (Queensland).....	Oct. 18, 1922	175,000
Austria.....	Mar. 24, 1920	969,000
Bulgaria.....	Apr. 12, 1925	280,000
Germany.....	July 16, 1927	<sup>4</sup> 17,920,000
Great Britain and Northern Ireland.....	Dec. 16, 1911	12,960,000
Irish Free State.....	Aug. 9, 1920	359,000
Italy.....	Oct. 19, 1919	4,000,000
Poland.....	July 18, 1924	954,000
Switzerland (13 cantons).....	( <sup>5</sup> )	<sup>6</sup> 325,000
United States (Wisconsin).....	Jan. 29, 1932	330,000
Total number insured.....		38,272,000

<sup>1</sup> A compulsory law was passed in Russia in 1922, but benefit payments were suspended in 1930.

<sup>2</sup> These are the dates upon which the laws were enacted, not the dates upon which they went into effect.

<sup>3</sup> These are the most recent figures available.

<sup>4</sup> This figure represents the number covered previous to the beginning of the depression in 1929. The official figure is much smaller (12,503,000 at end of August 1933); the difference is due not to any limitation of coverage but to the fact that those unemployed workers who had exhausted their right to insurance benefits and had thus come within the scope of the communal relief were not included in the figures for the members covered by unemployment insurance.

<sup>5</sup> The first of the cantonal measures was passed in 1925.

<sup>6</sup> This figure includes persons compulsorily insured in certain communes in cantons having voluntary insurance.

Source: Compiled by the Committee on Economic Security.

TABLE 8.—Countries in which voluntary unemployment insurance laws have been enacted and number of workers covered in each

Country	Date of law <sup>1</sup>	Number insured <sup>2</sup>
Belgium.....	Dec. 30, 1920	1,038,000
Czechoslovakia.....	July 19, 1921 <sup>3</sup>	1,500,000
Denmark.....	Apr. 9, 1907	337,000
Finland.....	Nov. 2, 1917	15,000
France.....	Sept. 9, 1905	192,000
Netherlands.....	Dec. 2, 1916	502,000
Norway.....	Aug. 6, 1915	47,000
Spain.....	May 25, 1931	<sup>4</sup> 50,000
Sweden.....	Jan. 1, 1935	( <sup>5</sup> )
Switzerland (11 cantons) <sup>6</sup> .....	Oct. 17, 1924 <sup>7</sup>	195,000
Total number insured.....		3,876,000

<sup>1</sup> These are the dates for the enactment of the national laws, not the dates upon which they took effect.

<sup>2</sup> These are the most recent figures available.

<sup>3</sup> This act came into effect on Apr. 1, 1925.

<sup>4</sup> The number of persons belonging to funds which may be subject to the insurance law is 50,000. It is not definitely known whether all these persons come under the law but it is probable that the majority of them do.

<sup>5</sup> It is estimated that 23 unions with 320,000 members have funds which may be used for the insurance provided in the law. The law became effective Jan. 1, 1935. It is likely that 320,000 can be taken as a rough estimate of the number who will come under the law in its early stages.

<sup>6</sup> 7 of these cantons specify that communes may enforce compulsory insurance within their borders; the population of communes that have compulsory insurance is given in table 1.

<sup>7</sup> This is the date of the national measure. The first of the cantonal acts was passed in 1925.

Source: Compiled by the Committee on Economic Security.

TABLE 9.—*General provisions of compulsory unemployment insurance laws*

Country and year of original law <sup>1</sup>	Regular weekly contributions	Qualifying period (contributions)	Waiting period (days)	Amount of benefit	Normal duration of benefits
Australia (Queensland), 1922.....	Workers, employers, State, each 6d.....	26 weeks.....	14.....	Varies with locality, marital status, and number of dependents.	13 weeks.
Austria, 1920.....	One-half workers, one-half employers, as percentage of basic wage classes.	20 weeks.....	8.....	Varies with wage classes, marital status, and number of dependents.	12 to 20 weeks.
Bulgaria, 1925.....	Workers, employers, State, each 1 leva.	52 weeks in 2 years.	8.....	16 leva daily for head of family; 10 leva for others.	12 weeks.
Germany, 1927.....	Workers, employers, each 3¼ percent of basic wage classes.	do.....	Varies, 3 to 14 with number of dependents.	Varies with wage classes, locality, and number of dependents.	14 weeks (means test required after 6 weeks).
Great Britain, 1911.....	Workers, employers, State, each one-third, 23 flat rate varying with age and sex.	30 weeks in 2 years.	6.....	Varies with age, sex, and number of dependents.	26 weeks.
Irish Free State, 1911.....	Workers and employers contribute varying amounts; State two-sevenths of aggregate.	12 weeks.....	6.....	do.....	1 day's benefit for each weekly contribution.
Italy, 1919.....	One-half workers, one-half employers, as percentage of basic wage classes.	48 weeks in 2 years.	7.....	Varies with wage classes.	90 to 120 days.
Poland, 1924 <sup>2</sup> .....	Wage earners ¼ percent of wages; employers, 1¼ percent; State 1 percent.	26 weeks.....	10.....	Varies with marital status and number of dependents.	13 weeks.
Switzerland (13 cantons).....	Varies with the type of insurance fund, occupation, risks involved, and laws of Canton.	180-day minimum.	3 minimum.....	Maximum benefit, 50 percent wages, plus 10 percent for members with dependents.	90-day maximum.

<sup>1</sup> A compulsory law was passed in Russia in 1922, but benefits were suspended in 1930, owing to an absence of unemployment.

<sup>2</sup> Poland also has a system of unemployment insurance for salaried workers to which only employers and employees contribute.

Source: Compiled mainly from the *Monthly Labor Review*, August and September 1934, "Operation of Unemployment Insurance Systems in the United States and Foreign Countries."

TABLE 10.—General provisions of voluntary subsidized unemployment insurance laws

Country and year of original law	Subsidies	Qualifying period	Waiting period	Maximum amount of benefits	Normal duration of benefits
Belgium, 1920.....	State pays two-thirds of contributions by members.	1 year.....	1 day each month plus 3 days each 6 months.	Three-fourths usual wages.	30 days each 6 months.
Czechoslovakia, 1921.....	State pays 2 to 3 times union benefits.	Varies with fund; 3-month minimum.	7 days.....	Two-thirds last wage.....	26 weeks.
Denmark, 1917.....	State, 15 to 90 percent contributions; local governments pay one-third of State subsidy.	12 months.....	6-day minimum; 15 maximum. Varies with fund.	Two-thirds average earnings.	Varies; 70 to 120 days.
Finland, 1917.....	State, one-third to two-thirds of benefits paid by funds.	6 months.....	6-day minimum; 18 maximum; varies.	Two-thirds average wage...	120 days.
France, 1905.....	State, 60 to 90 percent of benefits.	do.....	Varies with funds.	One-half normal wages....	180 days.
Netherlands, 1916.....	Federal, one-half workers contributions; local, one-half also.	Varies; 26 weeks in general.	Varies; 6 days in general.	70 percent average daily wage.	Varies; 36 to 90 days.
Norway, 1915.....	State one-half and more of benefits paid; local governments pay two-thirds of State subsidy.	26 weeks.....	Varies with fund; 3 to 14 days.	One-half daily earnings....	13 weeks.
Spain, 1931.....	State pays varying percentage of benefits.	6 months.....	6 days.....	Three-fifths normal wages.	60 days.
Sweden, 1934 <sup>1</sup> .....	State pays percentage of benefits.	52 weeks in 2 years.....	6-day minimum; 3-month maximum.	Four-fifths usual wages...	90-day minimum; 120-day maximum.
Switzerland, 1924.....	Federal subsidy, 38 to 43 percent of benefits plus cantonal and communal subsidies.	180-day minimum.....	3-day minimum.....	Three-fifths normal wages.	90-day maximum.

<sup>1</sup> Sweden's law became effective Jan. 1, 1935.Source: Compiled mainly from the *Monthly Labor Review*, August and September 1934, "Operation of Unemployment Insurance Systems in the United States and Foreign Countries."



TABLE 11.—*Number of older persons gainfully occupied by age and occupation for United States, 1930*<sup>1</sup>

	45 and over	50 and over	55 and over	60 and over	65 and over	70 and over	75 and over
Total population.....	28,048,786	21,006,507	15,030,703	10,385,026	6,633,805	3,863,200	1,913,196
Total gainfully occupied....	14,626,620	10,350,550	6,795,459	4,155,395	2,204,967	977,925	335,023
Agriculture.....	3,891,109	2,979,047	2,115,609	1,407,129	829,825	417,734	159,809
Forestry and fishing.....	84,013	58,250	36,865	21,627	11,100	4,678	1,493
Extraction of minerals.....	286,039	181,594	104,957	54,796	24,553	8,572	2,347
Manufacturing and me- chanical industries.....	4,165,502	2,837,582	1,794,848	1,047,104	518,525	205,130	61,048
Transportation and com- munication.....	994,996	656,832	400,231	222,808	100,297	33,141	9,073
Trade.....	1,889,026	1,307,044	831,557	488,493	247,726	105,367	33,616
Public service.....	351,075	270,775	192,679	126,097	69,441	29,701	8,891
Professional service.....	852,491	596,732	380,186	223,031	113,284	51,190	18,496
Domestic and personal serv- ice.....	1,566,011	1,107,365	723,292	443,768	232,989	99,963	33,500
Clerical occupations.....	546,358	355,329	215,235	120,542	57,227	22,449	6,750

<sup>1</sup> Less unknown.Source: Fifteenth Census of the U. S., 1930, vol. II, *Population*, table 3, p. 567, and vol. IV, *Occupations*, table 21, p. 42.

TABLE 12.—Age distribution of United States population by urban and rural for 1920 and 1930

Age group	Total population			Urban population			Rural population		
	1920	1930	Accumulated percentage <sup>1</sup>	1920	1930	Accumulated percentage <sup>1</sup>	1920	1930	Accumulated percentage <sup>1</sup>
	Number	Number		Number	Number		Number	Number	
Under 5.....	11,573,230	11,444,390	90.6	5,275,751	5,626,360	91.7	6,297,479	5,818,030	89.1
5 to 9.....	11,398,075	12,607,609	80.3	5,050,276	6,211,141	82.7	6,347,799	6,396,468	77.3
10 to 14.....	10,641,137	12,004,877	70.5	4,664,312	5,949,693	74.1	5,976,825	6,053,184	66.0
15 to 19.....	9,430,556	11,552,115	61.1	4,445,963	6,015,411	65.4	4,994,593	6,536,704	55.7
20 to 24.....	9,277,021	10,870,378	52.2	5,102,099	6,420,308	56.1	4,174,922	4,450,070	47.4
25 to 29.....	9,086,491	9,833,608	44.2	5,319,058	6,171,951	47.1	3,767,433	3,661,637	40.6
30 to 34.....	8,071,193	9,120,421	36.8	4,726,556	5,773,476	38.8	3,344,637	3,346,945	34.4
35 to 39.....	7,775,281	9,208,645	29.3	4,453,437	5,773,476	30.4	3,321,844	3,434,881	28.0
40 to 44.....	6,345,557	7,990,195	22.8	3,692,119	4,932,366	23.2	2,743,438	3,057,809	22.4
45 to 49.....	5,763,620	7,042,279	17.1	3,190,639	4,222,829	17.1	2,572,981	2,819,450	17.1
50 to 54.....	4,734,873	6,975,804	12.2	2,613,070	3,491,257	12.0	2,121,803	2,484,547	12.5
55 to 59.....	3,549,124	4,645,677	8.6	1,895,847	2,656,416	8.2	1,653,277	1,989,261	8.8
60 to 64.....	2,982,548	3,751,221	5.4	1,528,950	2,120,290	5.1	1,454,458	1,630,961	5.8
65 to 69.....	2,068,475	2,770,605	3.1	1,000,986	1,527,724	2.9	1,007,459	1,242,881	3.5
70 to 74.....	1,395,036	1,950,004	1.6	660,731	1,031,232	1.4	731,305	918,772	1.8
75 to 79.....	856,560	1,106,390	.7	398,037	563,217	.6	467,923	643,173	.8
80 to 84.....	534,676	726,715	.2	185,455	267,715	.2	217,324	286,961	.3
85 to 89.....	402,779	505,469	.1	169,012	102,133	.1	181,527	103,336	.1
90 to 94.....	156,539	205,469	.1	69,012	102,133	.1	82,354	26,517	.1
95 to 99.....	39,980	51,664	.1	17,026	25,147	.1	22,354	6,028	.1
100 and over.....	9,579	11,033	.1	4,223	5,007	.1	5,356	2,604	.1
Unknown.....	4,267	3,964	.1	1,881	1,360	.1	2,386	2,604	.1
Total population.....	105,710,620	122,775,046	100.0	54,304,603	68,554,823	100.0	51,406,017	53,820,223	100.0

<sup>1</sup> Accumulated percentage based on all over first age mentioned in each age group.<sup>2</sup> Estimated.<sup>3</sup> Less than one-tenth of 1 per cent.Source: Fifteenth Census of the U. S., 1930, vol. II, *Population*, tables 7 and 16, pp. 576, 587-89.

TABLE 13.—Actual and estimated number of persons aged 65 and over compared to total population, 1860 to 2000

Year	Number aged 65 and over	Total population	Percent aged 65 and over	Year	Number aged 65 and over	Total population	Percent aged 65 and over
1860.....	849,000	31,443,000	2.7	1940.....	8,311,000	132,000,000	6.3
1870.....	1,154,000	38,558,000	3.0	1950.....	10,863,000	141,000,000	7.7
1880.....	1,723,000	50,156,000	3.4	1960.....	13,590,000	146,000,000	9.3
1890.....	2,424,000	62,622,000	3.9	1970.....	15,066,000	149,000,000	10.1
1900.....	3,089,000	75,995,000	4.1	1980.....	17,001,000	150,000,000	11.3
1910.....	3,958,000	91,972,000	4.3	1990.....	19,102,000	151,000,000	12.6
1920.....	4,940,000	105,711,000	4.7	2000.....	19,338,000	151,000,000	12.7
1930.....	6,634,000	122,775,000	5.4				

Source: Data for years 1860 to 1930 from the U. S. Censuses. Estimates for subsequent years by the actuarial staff of the Committee on Economic Security. These forecasts are made on the assumption of a net immigration of 100,000 annually in years 1935-39, and 200,000 annually in 1940 and thereafter.

TABLE 14.—Operation of old-age pension laws of the United States, 1934

State	Type of law	Number of pensioners <sup>1</sup>	Number of eligible age <sup>1</sup>	Percent-age of pensioners to number of eligible age	Average pension <sup>1</sup>	Yearly cost <sup>1</sup>
Alaska.....	Mandatory.....	<sup>4</sup> 446	3,437	11.1	\$20.82	\$95,705
Arizona.....	do.....	<sup>1</sup> 1,974	9,118	21.6	9.01	200,927
California.....	do.....	<sup>4</sup> 19,300	210,379	9.2	21.16	3,502,000
Colorado.....	do.....	8,705	61,787	14.1	8.59	172,481
Delaware.....	do.....	<sup>1</sup> 1,610	16,678	9.7	9.79	188,740
Hawaii.....	Optional.....	<sup>(9)</sup>	<sup>(9)</sup>	<sup>(9)</sup>	<sup>(9)</sup>	<sup>(9)</sup>
Idaho.....	Mandatory.....	1,275	22,310	5.7	8.85	114,521
Indiana.....	do.....	<sup>7</sup> 23,418	138,426	16.9	<sup>7</sup> 6.13	<sup>4</sup> 1,254,169
Iowa.....	do.....	<sup>4</sup> 3,000	184,239	1.6	<sup>4</sup> 13.50	<sup>4</sup> 475,500
Kentucky.....	Optional.....	<sup>(10)</sup>	<sup>(10)</sup>	<sup>(10)</sup>	<sup>(10)</sup>	<sup>(10)</sup>
Maine.....	Mandatory.....	<sup>(11)</sup>	<sup>(11)</sup>	<sup>(11)</sup>	<sup>(11)</sup>	<sup>(11)</sup>
Maryland.....	Optional.....	<sup>13</sup> 141	92,972	.2	29.90	50,217
Massachusetts.....	Mandatory.....	<sup>13</sup> 20,023	156,590	12.8	24.35	5,411,723
Michigan.....	do.....	<sup>13</sup> 2,660	148,853	1.8	<sup>13</sup> 9.59	<sup>13</sup> 306,096
Minnesota.....	Optional.....	2,655	94,401	2.8	13.20	420,536
Montana.....	do.....	1,781	14,377	12.4	7.28	155,525
Nebraska.....	Mandatory.....	<sup>(14)</sup>	<sup>(14)</sup>	<sup>(14)</sup>	<sup>(14)</sup>	<sup>(14)</sup>
Nevada.....	Optional.....	23	4,814	.5	15.00	3,320
New Hampshire.....	Mandatory.....	<sup>4</sup> 1,423	25,714	5.5	<sup>13</sup> 19.06	<sup>13</sup> 298,722
New Jersey.....	do.....	<sup>13</sup> 10,580	112,594	9.4	12.72	1,375,693
New York.....	do.....	51,228	373,878	13.7	22.16	13,592,080
North Dakota.....	do.....	<sup>(16)</sup>	<sup>(16)</sup>	<sup>(16)</sup>	<sup>(16)</sup>	<sup>(16)</sup>
Ohio.....	do.....	<sup>13</sup> 24,000	414,836	5.8	<sup>4</sup> 13.99	<sup>13</sup> 3,000,000
Oregon.....	do.....	<sup>(17)</sup>	<sup>(17)</sup>	<sup>(17)</sup>	<sup>(17)</sup>	<sup>(17)</sup>
Pennsylvania.....	do.....	<sup>(18)</sup>	<sup>(18)</sup>	<sup>(18)</sup>	<sup>(18)</sup>	<sup>(18)</sup>
Utah.....	do.....	930	22,665	4.1	8.56	95,590
Washington.....	do.....	<sup>7</sup> 2,239	101,503	2.2	<sup>(9)</sup>	<sup>(9)</sup>
West Virginia.....	Optional.....	<sup>(16)</sup>	<sup>(16)</sup>	<sup>(16)</sup>	<sup>(16)</sup>	<sup>(16)</sup>
Wisconsin.....	do.....	1,969	112,112	1.8	16.75	395,707
Wyoming.....	Mandatory.....	543	8,707	7.4	10.79	83,231
Total.....		180,003				31,192,492

<sup>1</sup> Where no special reference is given, the figures are as of Dec. 31, 1933.

<sup>2</sup> 1930 Census figures.

<sup>3</sup> Where no special reference is given, the figures represent actual cost for the year 1933.

<sup>4</sup> As of December 1934.

<sup>5</sup> As of Oct. 1, 1934.

<sup>6</sup> No information available or not computed.

<sup>7</sup> As of August 1934.

<sup>8</sup> Appropriation for 1934.

<sup>9</sup> Estimated from expenditures of April through November 1934, \$317,000.

<sup>10</sup> No pensions being paid.

<sup>11</sup> Not yet in effect.

<sup>12</sup> As of November 1934.

<sup>13</sup> Estimated from monthly figures.

<sup>14</sup> Not much being done due to lack of funds.

<sup>15</sup> As of September 1934.

<sup>16</sup> No pensions being paid now.

<sup>17</sup> Administered by counties; no information available for State.

<sup>18</sup> Law just being put into effect.

Source: Data collected by the Committee on Economic Security.

State	Date enacted	Date amended	In effect	Property limit	Annual income limit	Disqualifications (see explanatory footnotes)	Other provisions (see explanatory footnotes)	Maximum amount of pension	Period of payments
Alaska	1915	{1917, 1919, 1925, 1929}	1917	{Insufficient means of support. <sup>(2)</sup>		d, n	B	{M \$35 a month. W \$45 a month.	Quarterly.
Arizona	1933		1933		\$300	a, f	B, C	\$30 a month	Monthly.
California	1929	1931, 1933	1929	\$3,000	365	a, f, n, o	A	\$1 a day	Do.
Colorado	1927	1931, 1933	1927	\$2,000	365	a, b, c, d, f, n	A, B, C	do	Monthly or quarterly.
Delaware	1931	1933	1931		300	a, d, f, l, n	C	\$25 a month	Monthly.
Hawaii	1933	1933	1933	( <sup>1</sup> )	300	e, l, f	A, B, C	\$15 a month	Do.
Idaho	1931		1931	( <sup>1</sup> )	300	a, b, c, d, e, f, l, m	A, B, C, D	\$25 a month	Do.
Indiana	1933		1933	\$1,000	180	a, b, c, d, e, f, l, n	A, B, C	\$15 a month	Do.
Iowa	1934		1934	( <sup>1</sup> )	365	a, b, c, d, f, l, j	A, B, C, D	\$25 a month	Monthly or quarterly.
Kentucky	1926		1926	2,500	400	a, d, f, h, l, j, n	B	\$250 a year	Do.
Maine	1933		1933	\$300	365	a, b, c, e, f, l, k	A, B, C	\$1 a day	Not specified.
Maryland	1927	1931	1927		365	a, c, d, e, f, l, n	C	do	Do.
Massachusetts	1930	1932, 1933	1930	None specified		d, "Deserving citizens."		Adequate assistance.	Do.
Michigan	1933		1933	\$3,500	365	a, b, c, d, f, l	A, B, C, D	\$30 a month	Monthly.
Minnesota	1929	1931, 1933	1929	\$3,000	365	a, c, d, e, f, l, n	A, B, C	\$1 a day	Monthly or quarterly.
Montana	1923		1923	( <sup>1</sup> )	300	b, c, d, e, f, l	A, B, C	\$25 a month	Monthly.
Nebraska	1933		1933	( <sup>1</sup> )	300	b, c, d, e, f, l	A, B, C	\$20 a month	Do.
Nevada	1926		1926	\$3,000	390	a, b, c, d, e, f, l	A, B, C, D	\$1 a day	Monthly or quarterly.
New Hampshire	1931		1931	2,000	360	a, c, d, e, f, l, n	A, B, C	\$7.50 a week	Weekly or monthly.
New Jersey	1931	1932, 1933	1931	3,000	( <sup>1</sup> )	d, e, f, g	A, C	\$1 a day	Monthly.
New York	1930	1934	1930	Unable to support self.		a, d, f, g		Determined by official.	Not specified.
North Dakota	1933		1933	( <sup>1</sup> )	150	a, f, l, m, n, p	A, B	\$150 a year	Monthly.
Ohio	1933		1933	{ \$3,000; couple \$4,000 }	300	a, b, c, d, f	A, B, C, D	\$25 a month	Do.
Oregon	1933		1933	\$3,000	360	a, b, c, d, f, l, l	A, B, C, D	\$30 a month	Monthly or quarterly.
Pennsylvania	1934		1934	Indigent		a, b, c, d, l	C	do	Monthly.
Utah	1929		1929	( <sup>1</sup> )	300	a, b, c, d, e, f, l	A, B, C	\$25 a month	Do.
Washington	1933		1933	( <sup>1</sup> )	360	a, b, c, d, e, f	A, B, C	\$30 a month	Do.
West Virginia	1931		1931	No property or income.		a, d, e, f, g, h, l, n	B	\$1 a day	Do.
Wisconsin	1925	1929, 1931, 1933	1925	\$3,000	365	a, c, d, e, f, l, n	A, B, C	do	Monthly or quarterly.
Wyoming	1929	1931	1929	( <sup>1</sup> )	360	b, c, d, e, f, l	A, B, C	\$30 a month	Monthly.

<sup>1</sup> Since 1906.

<sup>2</sup> Annual income of any property to be computed.

<sup>3</sup> Annual income of any property to be computed.

<sup>4</sup> Required residence in United States 15 years.

<sup>5</sup> When Governor can raise funds.

<sup>6</sup> House in which applicant lives not to be counted.

<sup>7</sup> Earnings and gifts up to \$100 exempt.

<sup>8</sup> Unable to maintain self.

<sup>9</sup> Mandatory from July 1, 1935, on.

#### Other provisions:

A. Transfer of applicant's property to pension authority may be demanded before pension is granted.

B. Amount of payments to be collected from estate on death of pensioner or the survivor of a married couple.

C. Allowances for funeral expenses.

D. Payments may be made to charitable or benevolent institution if pensioner is indigent.





TABLE 15.—Principal features of the old-age pension laws of the United States

State	Date enacted	Date amended	In effect	Nature of law	Administration		Degree of State supervision	Allocation of expenses			Fund provided by--	Qualifications for recipients						Disqualifications (see explanatory footnotes)	Other provisions (see explanatory footnotes)	Maximum amount of pension	Period of payments	
					State	Local		State	County	Town		Age	Citizenship	Residence		Property limit	Annual income limit					
Alaska	1915	1917, 1918, 1925, 1929	1915	Mandatory	Alaska Pioneers Home	No local administration	Territory administration	All	None	None	Territory	M 65 W 70	Required	(1)	None	Insufficient means of support. <sup>(2)</sup>	\$300	a, d, n	B	M \$35 a month. W \$15 a month.	Quarterly.	
Arizona	1933		1933	do	State auditor	County old-age pension commission	Duplicate certificate to auditor, annual report	67 percent.	33 percent.	None	State and county		do	35	Required			a, f, n	B, C	\$30 a month	Monthly.	
California	1929	1931, 1933	1929	do	Department of social welfare, Division of State aid for the aged	County board of supervisors, local department of public welfare	Complete supervision; monthly reports	One-half	One-half	None	do	70	16 years	16	1	\$3,000	365	a, f, n, o	A	\$1 a day	Do.	
Colorado	1927	1931, 1933	1927	do	Right of appeal to district court and supreme court	County court; board of county commissioners, trustees	Annual report to Secretary of State	State fund allocated to counties in proportion to population			State estate and liquor tax; local liquor tax	65	do	15	5		2,000	365	a, b, c, d, f, n	A, B, C	do	Monthly or quarterly.
Delaware	1931	1933	1931	do	State old-age welfare commission		State administration	All	None	None	State current revenues	65	Not required. <sup>(3)</sup>	5	None		300	a, d, f, i, n	O	\$25 a month	Monthly.	
Hawaii	1933	1933	1934	Optional	Territorial auditor	Old-age pension commission	Annual report to Territorial auditor	None	Shared by county and city		Counties and cities	65	30 years	15		(7)	300	a, f, n	A, B, C	\$15 a month	Do.	
Idaho	1931		1931	Mandatory	Department of public welfare	do	Annual report only	None	All	None	County	65	15 years	10	3	(7)	500	a, b, c, d, e, f, i, m	A, B, C, D	\$25 a month	Do.	
Indiana	1933		1934	do	State auditor	Board of county commissioners	Annual report; duplicate certificate to auditor	One-half	One-half	None	State and county	70	do	15	15	\$1,000	180	a, b, c, d, e, f, i, k	A, B, C	\$15 a month	Do.	
Iowa	1934		1934	do	Old-age assistance commission	Old-age assistance boards	Complete supervision	All	None	None	State poll tax	65	do	10	2	(7)	\$385	a, b, c, d, f, i, j, n	A, B, C	\$25 a month	Monthly or quarterly.	
Kentucky	1926		1926	Optional	None	County commissioners	None	None	All	None	County	70	do	10	10	2,500	400	a, d, f, h, i, j, n	B	\$250 a year	Do.	
Maine	1933		(4)	Mandatory	Department of health and welfare	Old-age pension boards	Complete supervision	One-half	One-half	None	No provisions as yet	65	Required	15	1	\$300	365	a, b, c, e, f, i, k	A, B, C	\$1 a day	Not specified.	
Maryland	1927	1931	1927	Optional	None	County commissioners	Annual report to Governor	None	All	None	County	65	16 years	10	10		365	a, c, d, e, f, i, n	O	do	Do.	
Massachusetts	1930	1932, 1933	1931	Mandatory	State department of public welfare	Bureau of old-age assistance	Complete supervision	One-third	Two-thirds	Cities and towns	State poll tax; liquor tax	70	Required	20	None	None specified		d, "Deserving citizens."		Adequate assistance	Do.	
Michigan	1933		1933	do	State welfare department, old-age pension bureau	Old-age pension board	do	All	None	None	State poll tax	70	16 years	10	None	\$3,500	\$265	a, b, c, d, f, i, n	A, B, C, D	\$30 a month	Monthly.	
Minnesota	1929	1931, 1933	1929	Optional	None	Board of county commissioners	None	None	All	Reimburse county	County, city, town, village	70	do	15	15	\$3,000	365	a, c, d, e, f, i, n	A, B, C	\$1 a day	Monthly or quarterly.	
Montana	1923		1923	do	None	Old-age pension commission	Annual report to State auditor	None	All	None	County poor fund	70	do	15	None	(7)	300	b, c, d, e, f, i, n	A, B, C	\$25 a month	Monthly.	
Nebraska	1923		1933	Mandatory	Auditor of public accounts	do	do	None	All	None	County poll tax	65	do	15	None	(7)	300	b, c, d, e, f, i, n	A, B, C	\$20 a month	Do.	
Nevada	1925		1925	Optional	None	Board of county commissioners	Annual report to Governor	None	All	None	County	65	do	10	None	\$3,000	390	a, b, c, d, e, f, i, n	A, B, C, D	\$1 a day	Monthly or quarterly.	
New Hampshire	1931		1931	Mandatory	None	County commissioners	None	None	All	Reimburse county	do	70	do	15	15	2,000	360	a, c, d, e, f, i, n	A, B, C	\$7.50 a week	Weekly or monthly.	
New Jersey	1931	1932, 1933	1932	do	Department of institutions and agencies, division of old-age relief	County welfare board	Complete supervision	Three-fourths	One-fourth	None	State inheritance tax and county fund	70	Required	15	1	3,000	(7)	d, e, f, g	A, C	\$1 a day	Monthly.	
New York	1930	1934	1930	do	State department of social welfare	Public welfare district official	do	One-half	One-half	Public welfare district	State, county, city	70	do	10	1	Unable to support self. <sup>(1)</sup>		a, d, f, g		Determined by official	Not specified.	
North Dakota	1933		1933	do	Secretary of agriculture and labor	Board of county commissioners	do	All	None	None	State special tax	65	do	20	None	(7)	150	a, f, i, m, n, p	A, B	\$150 a year	Monthly.	
Ohio	1933		1934	do	Department of public welfare, division of aid for the aged	Board of aid for the aged	do	All	None	do	State	65	16 years	15	1	\$3,000, couple \$4,000	300	a, b, c, d, f	A, B, C, D	\$25 a month	Do.	
Oregon	1933		1934	do	State board of control	Old-age pension commission	Annual report to State board of control	Part of State liquor tax distributed to counties, balance paid by counties			State liquor tax; county general fund	70	do	15	2		350	a, b, c, d, f, i, l	A, B, C, D	\$30 a month	Monthly or quarterly.	
Pennsylvania	1934		1934	do	Department of welfare	Board of trustees of old-age assistance fund	Complete supervision	State tax allocated to counties according to number of people on pension rolls			State	70	do	15	None	Indigent		a, b, c, d, f	O	do	Monthly.	
Utah	1929		1929	do	None	Board of county commissioners	None	None	All	None	County	65	do	15	5	(7)	300	a, b, c, d, e, f, l	A, B, C	\$25 a month	Do.	
Washington	1933		1933	do	None	Board of county commissioners	None	None	All	None	do	65	do	15	5	(7)	300	a, b, c, d, e, f	A, B, C	\$30 a month	Do.	
West Virginia	1931		1931	Optional	None	County court	Annual audit by tax commissioner	None	All	None	do	65	do	10	10	No property or income	360	a, d, e, f, g, h, i, n	B	\$1 a day	Do.	
Wisconsin	1925	1929, 1931, 1933	1925	(7)	State board of control	County judge	Annual report	One-third	Two-thirds	Reimburse county	State, county, local	70	do	15	15	\$3,000	365	a, c, d, e, f, i, n	A, B, C	do	Monthly or quarterly.	
Wyoming	1929	1931	1929	Mandatory	None	Old-age pension commission	Annual report to State auditor	None	All	None	County poor fund	65	do	15	5	(7)	360	b, a, d, e, f, i	A, B, C	\$30 a month	Monthly.	

<sup>1</sup> Since 1906.

<sup>2</sup> Annual income of any property to be computed at 2 percent of its value.

<sup>3</sup> Annual income of any property to be computed at 2 percent of its value.

<sup>4</sup> Required residence in United States 15 years.

<sup>5</sup> When Governor can raise funds.

<sup>6</sup> House in which applicant lives not to be considered property.

<sup>7</sup> Earnings and gifts up to \$100 exempt.

<sup>8</sup> Unable to maintain self.

<sup>9</sup> Mandatory from July 1, 1935, on.

Source: Compiled by Committee on Economic Security from State laws.

#### Disqualifications:

a. Inmate of any prison, jail, insane asylum, or correctional institution.

b. Desertion of spouse.

c. To have failed without just cause to provide support for wife and minor children.

d. Relative legally liable and able to support.

e. Sentence for crime.

f. Disposed of or deprived oneself of property to qualify for pension.

g. Need of institutional care.

h. Recipient of pension from Federal, State, or foreign government.

i. Habitual tramp, vagrant, or beggar.

j. Unable to earn at least \$1 per day.

k. Spouse and children able to furnish support.

l. Convicted of crime involving moral turpitude.

m. To have failed to work according to ability.

n. Inmate of benevolent, charitable, or fraternal institution.

o. Husband, wife, parent, or child able and responsible for support.

p. Children liable and able to support.

#### Other provisions:

A. Transfer of applicant's property to pension authority may be demanded before pension is granted.

B. Amount of payments to be collected from estate on death of pensioner or the survivor of a married couple.

C. Allowances for funeral expenses.

D. Payments may be made to charitable or benevolent institution if pensioner is inmate.



TABLE 16.—*Old-age insurance and pension legislation in foreign countries through 1933*

## A. COMPULSORY CONTRIBUTORY OLD-AGE INSURANCE LAWS OF GENERAL COVERAGE

Country	Year when passed	Coverage
Austria <sup>1</sup> 2	1927	Workers in industry and commerce, including domestic workers, except casual domestics. Special schemes for agricultural workers, salaried employees, and miners.
Belgium <sup>1</sup>	1924	All wage earners, including agricultural workers and domestics (except casual domestics); and independent workers with incomes below 18,000 francs a year. Special schemes for salaried employees and miners.
Bulgaria <sup>1</sup> 2	1924	Employed persons, including agricultural workers and domestics. Special scheme for public officials.
Chile <sup>1</sup>	1924	Wage earners under 65 earning less than 8,000 pesos a year; independent workers with annual incomes below 8,000 pesos a year.
Czechoslovakia <sup>1</sup> 2	1924	Employed workers over school age and under 60, including agricultural, domestic, and home workers. Special schemes for salaried employees, miners, state employees, employees of statutory corporations, such as railways. Special act for independent workers, passed in 1925, not yet enforced.
France <sup>1</sup> 2 (see also sec. C).	1910	All employed persons under 60 whose annual earnings do not exceed 18,000 francs a year in cities with over 200,000 inhabitants or industrial areas, 15,000 francs elsewhere. (Income limit raised by 2,000 francs in respect of each child.) Persons employed in agriculture subject to insurance against old age and death only. Special scheme for miners.
Germany <sup>1</sup> 2	1889	All workers, including agricultural, domestic, and home workers. Special scheme for salaried employees with annual earnings below 8,400 reichsmarks. Special scheme for miners.
Great Britain <sup>1</sup> 2 (see also section C).	1925	All workers, including agricultural workers and domestics; salaried employees with incomes below £250 a year.
Greece <sup>1</sup> 2	1922	All persons employed in industry and commerce.
Hungary <sup>1</sup> 2	1928	All persons employed in specified employments. Employments may be added by Minister's order. Salaried employees with incomes below 6,000 pengo a year. Special scheme for miners.
Italy <sup>1</sup>	1919	All employed persons, including agricultural and domestic workers. Salaried employees with incomes below 800 lire a month.
Luxemburg <sup>1</sup> 2	1911	Workers in industry and commerce. Special scheme for salaried employees in industry and commerce.
Netherlands <sup>1</sup> 2	1913	All employed persons, including agricultural and domestic workers, whose annual remuneration does not exceed 2,000 florins. Insured persons whose remuneration rises above 2,000 florins remain liable to insurance. If their remuneration has been above 3,000 florins for some time, they are exempted at their request. Special schemes for railway workers and miners.
Poland <sup>1</sup> 2	1933	All workers in commerce and industry. Insurable wage limit.
Portugal <sup>1</sup>	1919	All employed persons over 15 years earning less than 900 escudos annually.
Rumania <sup>1</sup>	1912	All persons employed in industry and commerce, and craftsmen. Special scheme for miners in Ardeal, which includes survivors' insurance.
Spain	1919	All employed persons whose annual earnings do not exceed 4,000 pesetas. Domestic servants excluded.
Sweden <sup>1</sup>	1913	All citizens between 16 and 66 years unless already guaranteed pension under army, navy, etc.
Union of Soviet Socialist Republics <sup>1</sup> 2	1922	All manual workers; engineers and skilled technical workers; navigating staff in civil aviation; various categories of salaried employees.
Yugoslavia <sup>1</sup> 2	1922	All wage earners except household casuals, farm labor, and sea fishermen. (Not yet enforced.)
	1924	All workers and other persons employed under mining act.
	1907	Salaried employees in Slovenia and Dalmatia who have reached age 18 and whose annual earnings are not less than 150 dinars.

<sup>1</sup> Old-age insurance combined with invalidity insurance.<sup>2</sup> Old-age insurance combined with survivors' insurance.

Source: Compiled from *Compulsory Pension Insurance*, International Labour Office, Studies and Reports, Series M, No. 10, Geneva, 1933; *Noncontributory Pensions*, International Labour Office, Studies and Reports, Series M, No. 9, Geneva, 1933; *Insuring the Essentials*, Barbara Nachtrieb Armstrong, 1932.



TABLE 16.—*Old-age insurance and pension legislation in foreign countries through 1933—Continued*

## B. COMPULSORY CONTRIBUTORY OLD-AGE INSURANCE LAWS OF LIMITED COVERAGE

Country	Year when passed	Coverage
Argentina <sup>1 2</sup> .....	1921	Public utility employees.
Brazil <sup>1 2</sup> .....	1924	Bank staffs.
	1923	Railway workers.
	1926	Dock workers.
Cuba <sup>1 2</sup> .....	1931	Staffs of public utility undertakings.
Ecuador <sup>1</sup> .....	1927	Seamen and harbor workers.
Switzerland:	1928	Staffs of banks.
Canton Glarus <sup>1</sup> .....	1916	Legal residents between ages 17 and 50.
Appenzell.....	1925	All legal residents between ages 18 and 64.
Basle Town <sup>2</sup> .....	1931	All persons between ages 20 and 65 who have been resident in the Canton for 2 years.
Uruguay <sup>1 2</sup> (see also section C).....	1919	Staffs of public utility undertakings.
	1925	Staffs of banks and stock exchange.

## C. NONCONTRIBUTORY OLD-AGE PENSION LAWS

Australia <sup>1</sup> .....	1908	All citizens with insufficient income, resident 20 years.
Canada.....	1927	All citizens with insufficient income; resident in Canada 20 years, in Province 5 years.
Denmark.....	1891	Citizens with insufficient means, resident 5 years.
France <sup>1</sup> (see also section A).....	1905	All citizens with insufficient means.
Great Britain (see also section A).....	1908	Citizens with insufficient means; 12 years' residence since age 50 for natural-born citizens; 20 years' residence in all for naturalized subjects.
Greenland.....	1926	All Greenlanders without subsistence income.
Iceland.....	1909	Citizens with insufficient means.
Irish Free State.....	1908	Citizens with insufficient means, resident 30 years.
Newfoundland.....	1911	All citizens with insufficient means.
New Zealand.....	1898	Citizens with insufficient means and 25 years' continuous residence.
Norway (will not go into effect until announced by Royal decree).....	1923	All citizens with insufficient income.
South Africa.....	1928	All citizens (of 5 years' standing) with 15 years' residence out of preceding 20 years; other persons with 25 years' residence out of preceding 30 years; insufficient income.
Uruguay <sup>1</sup> (see also section B.).....	1919	All persons with insufficient means. (For naturalized subjects or aliens 15 years' residence is required.)

<sup>1</sup> Old-age pension legislation combined with invalidity pension legislation.<sup>2</sup> Old-age insurance combined with survivors' insurance.

Country	Year when passed	Pension	Source of fund	Administrative responsibility
Australia <sup>1</sup> .....	1908	Men 65 <sup>2</sup> ar. <sup>3</sup> Reduced Women property except on 60. <sup>4</sup>	Commonwealth.....	Federal Government
Canada. Effective in 8 provinces: Alberta, British Columbia, Manitoba, New Brunswick, Nova Scotia, Ontario, Prince Edward Island, Saskatchewan.	1927	70..... <sup>5</sup> reduced by income (less	$\frac{1}{4}$ dominion; $\frac{3}{4}$ province....	Shared by dominion and provinces.
Denmark.....	1891	65 <sup>4</sup> .....um 600 to 1,008 minimum 402 to 678 maximum 378 reduced to means.	7/12 state; 5/12 communes....	Shared by central government and localities.
France <sup>1</sup> .....	1907	70.....francs (varying	State pays 240 francs on each pension; commune pays balance.	Do.
Great Britain <sup>1</sup> .....	1908	70.....reduced in pro-income.	State.....	Central government.
Greenland.....	1926	65.....et council.....	District partly reimbursed by State.	.....
Iceland.....	1909	.....maximum 200	Poll tax on all persons between 18 and 16 years.	.....
Irish Free State.....	1908	70.....k; reduced in er's income.	State.....	Central government.
Newfoundland.....	1911	75 <sup>4</sup> .....	State.....	.....
New Zealand.....	1898	Men 65 <sup>2</sup> ar. <sup>3</sup> reduced in w o <sup>5</sup> increased for en 60 <sup>4</sup> ore dependent	do.....	Central government.
Norway <sup>1</sup> .....	1923	70.....ent of amount of life.	50 percent State; 50 percent communes.	.....
South Africa.....	1928	65.....for white per-a year for col-l in proportion	State.....	Central government.
Uruguay <sup>1</sup> .....	1919	60.....ear; reduced in er's means.	A number of special national taxes.	Do

<sup>1</sup> Old-age pension  
<sup>2</sup> Reduced by 5 y  
<sup>3</sup> Pension author  
<sup>4</sup> If authority acc  
means and pension  
<sup>5</sup> Reduced by 3 y  
<sup>6</sup> Pension is varie  
application for pen

Imprisonment for dishonorable action.  
Habitual drunkenness.  
Receipt of poor relief within 3 years of claiming.  
Relatives liable and able to support.  
Aboriginal natives.



TABLE 17 — Principal provisions of foreign noncontributory old-age-pension laws through 1953

Country	Year when passed	Qualifications for recipients										Amount of pension	Source of fund	Administrative responsibility
		Age	Citizenship	Residence	Other qualifications	Disqualifications	Property limit	Annual-income limit	Property exemption	Annual-income exemption				
Australia <sup>1</sup>	1908	Men 65, <sup>2</sup> Women 60 <sup>3</sup>	British subject	20 years in union	a	A, B, C	£400	£55	£60 House in which pensioner resides	£32 10 s.; benefits from friendly societies and trade unions, allowances from children; war pensions.	Maximum £45 10s a year. <sup>4</sup> Reduced by £1 for each £10 of property except exempt property.	Commonwealth	Federal Government	
Canada. Effective in 8 provinces: Alberta, British Columbia, Manitoba, New Brunswick, Nova Scotia, Ontario, Prince Edward Island, Saskatchewan.	1927	70	British subject	20 years in union; 5 years in province.		B	Annual income of real property taken at 5 percent of its value; <sup>5</sup> income of personal property—government annuity purchasable with it.	\$365	See property limit.	\$125	Maximum \$240 a year, <sup>1</sup> reduced by amount of pensioner's income (less exemption).	¾ dominion; ¼ province.	Shared by dominion and provinces.	
Denmark	1891	65 <sup>1</sup>	Required	5 years in state		D, E, F	Annual income of property taken at 4 percent of its value.	275 to 375 kr. (varying with locality) plus maximum pension applicable.	Annual income of property taken at 4 percent of its value.	100 to 200 kr. (varying with locality).	Married couple, maximum 600 to 1,000 kr.; single man, maximum 400 to 675 kr.; single woman, maximum 375 to 612 kroner; <sup>2</sup> adjusted to means.	7/12 state; 5/12 communes.	Shared by central government and localities.	
France <sup>1</sup>	1907	70	do	None		G	Income from capital equal to life annuity purchasable with it.	2,400 francs plus earnings of pensioner	Income from capital equal to life annuity purchasable with it.	Earnings of pensioner, 400 francs from savings (600 francs if pensioner has raised 3 children to age 16).	Maximum 600 to 900 francs (varying with locality). <sup>1</sup>	State pays 240 francs on each pension; commune pays balance	Do.	
Great Britain <sup>1</sup>	1908	70	British subject	12 years since age 60 for natural-born citizens, 20 years in all for naturalized subjects		E	Annual income from first £375 property (other than property personally enjoyed by pensioner) computed at 5 percent; balance at 10 percent.	£49 17s. 6d.	Income from £25 of property, £35 annual income derived from source other than earnings, £8 3s annual income derived from any source, furniture and personal effects; sickness benefit from friendly society or trade union.		Maximum 10s. a week; reduced in proportion to pensioner's income.	State	Central government.	
Greenland	1926	65	Required		a		In necessitous circumstances				Amount fixed by district council	District partly reimbursed by State		
Iceland	1909				a		In necessitous circumstances				Minimum 20 kr. a year; maximum 200 kr. a year.	Poll tax on all persons between 16 and 70 years		
Irish Free State	1948	70	Not required	30 years in all, 6 years since age 50 for citizens, 10 years for others.		E	Annual income from first £375 property (other than property personally enjoyed by pensioner) computed at 5 percent; balance at 10 percent.	£39 5s.	Annual income from £25 of property, £15 12s. 6 d. annual income, furniture and personal effects, sickness benefit from friendly society or trade union	£15 12s. 6 d. annual income	Maximum 10s. a week, reduced in proportion to pensioner's income.	State	Central government	
Newfoundland	1911	75 <sup>1</sup>	Not required	20 years in State			"In need"	£80; married couple, £121.	£20	£30	\$50 a year	State	Central government.	
New Zealand	1908	Men 65, <sup>2</sup> Women 60 <sup>3</sup>	British subject	15 years in State	a	A, C, D, E	£140, annual income of property fixed at 10 percent for all property except exempt property (£50).	£80; married couple, £121.	£20	£30	Maximum £40 10s a year; <sup>4</sup> reduced in proportion to means; increased for pensioners with 2 or more dependent children.	50 percent State, 50 percent commune	Central government.	
Norway <sup>1</sup>	1923	70	Required		a		Inadequate income				Fixed so that 60 percent of amount will buy necessities of life	State	Central government.	
South Africa	1926	65	Not required	15 years out of 20 just before claiming for persons who have been British subjects for 5 years, 25 years out of 30 for others		A, G, H	Annual income from any property owned and occupied by pensioner and from all other uninvested assets computed at 10 percent.	£24 for white persons; £36 for colored persons	Annual income from property owned and occupied by pensioner and from other uninvested assets computed at 10 percent.	£24 for white persons; £18 for colored persons	Maximum £30 a year for white persons, maximum £18 a year for colored persons; reduced in proportion to pensioner's means.			
Uruguay <sup>1</sup>	1912	60	do	None required for natural-born subjects, 15 years for naturalized subjects or aliens		G	Property must be expressed in terms of annual income	102 pesos a year	Property must be expressed in terms of annual income.	10 pesos	Maximum 96 pesos a year, reduced in proportion to pensioner's means.	A number of special national taxes.	Do	

<sup>1</sup> Old-age pensions combined with invalidity pensions.  
<sup>2</sup> Reduced by 5 years in case of incapacity for work.  
<sup>3</sup> Pension authority recovers amount of pension on death of pensioner or of survivor of married couple.  
<sup>4</sup> If authority accepts transfer of house in which pensioner resides, value is disregarded in assessing means and pensioner lives in it rent-free.  
<sup>5</sup> Reduced by 3 years in case of incapacity for work.  
<sup>6</sup> Pension is varied in accordance with locality in which pensioner lives and is increased if sending in of application for pension is deferred beyond age 65.

<sup>1</sup> Noncontributory pensions being replaced by contributory pensions.  
<sup>2</sup> 65 for widow of beneficiary.  
<sup>3</sup> Reduced by 5 years for claimants having 2 or more dependent children under 15.  
<sup>4</sup> Will not go into effect until announced by royal decree.  
<sup>5</sup> Good character.  
<sup>6</sup> Persons of non-European extraction.  
<sup>7</sup> Aboriginal natives living under tribal conditions.  
<sup>8</sup> Desertion of spouse.

D. Imprisonment for dishonorable action.  
E. Habitual drunkenness.  
F. Receipt of poor relief within 3 years of claiming.  
G. Relatives liable and able to support.  
H. Aboriginal natives.

Source: Compiled from *Noncontributory Pensions*, International Labour Office Studies and Reports, Series M, No. 9, Geneva, 1933; *Insuring the Essentials*, Barbara Nachtrieb Armstrong, 1932.





TABLE 18.—*Estimated number of families and children receiving mothers' aid and estimated expenditures for this purpose*

[Based on figures available Nov. 15, 1934]

State	Number of families receiving mothers' aid	Number of children benefiting from mothers' aid	Estimated present annual expenditures for mothers' aid, local and State		
			Total	Local	State
Total.....	109,036	280,565	<sup>1</sup> \$37,487,479	<sup>1</sup> \$31,621,957	<sup>1</sup> \$5,865,522
Alabama <sup>2</sup> .....					
Arizona.....	106	379	20,940		20,940
Arkansas <sup>3</sup> .....					
California.....	7,056	17,642	2,133,999	224,252	1,909,747
Colorado.....	552	<sup>4</sup> 1,435	149,688	149,688	
Connecticut.....	1,271	3,276	734,627	489,752	244,875
Delaware.....	348	855	93,000	46,500	46,500
District of Columbia.....	209	720	143,997	143,997	
Florida.....	2,564	6,164	222,286	222,286	
Georgia <sup>4</sup> .....					
Idaho <sup>5</sup> .....	230	619	36,315	36,315	
Illinois.....	6,217	14,802	1,837,012	1,533,217	303,795
Indiana.....	1,332	3,856	352,224	352,224	
Iowa.....	3,527	<sup>6</sup> 9,170	719,772	719,772	
Kansas.....	768	<sup>4</sup> 1,997	75,721	75,721	
Kentucky.....	137	<sup>4</sup> 356	62,889	62,889	
Louisiana.....	88	<sup>4</sup> 229	9,312	9,312	
Maine.....	817	<sup>4</sup> 2,124	310,000	155,000	155,000
Maryland.....	267	<sup>4</sup> 694	117,459	117,459	
Massachusetts.....	3,939	11,817	2,450,000	1,400,000	1,050,000
Michigan.....	6,938	<sup>4</sup> 18,039	2,448,962	2,448,962	
Minnesota.....	3,597	9,152	1,138,176	1,138,176	
Mississippi <sup>3</sup> .....					
Missouri.....	336	<sup>4</sup> 874	93,440	93,440	
Montana <sup>4</sup> .....	839	1,969	213,623	213,623	
Nebraska.....	1,654	<sup>4</sup> 4,300	272,036	272,036	
Nevada <sup>4</sup> .....	200	<sup>4</sup> 520	44,035	44,035	
New Hampshire.....	260	761	\$82,440		\$82,440
New Jersey.....	7,711	18,789	2,445,564	\$2,445,564	
New Mexico <sup>6</sup> .....					
New York.....	23,493	56,524	11,731,176	11,731,176	
North Carolina.....	314	947	58,706	29,353	29,353
North Dakota <sup>4</sup> .....	978	2,644	238,314	238,314	
Ohio.....	8,923	24,470	2,116,908	2,116,908	
Oklahoma <sup>4</sup> .....	1,896	5,166	123,314	123,314	
Oregon.....	1,040	2,259	247,140	247,140	
Pennsylvania.....	7,700	22,587	3,197,640	1,598,820	1,598,820
Rhode Island.....	513	1,666	267,252	133,626	133,626
South Carolina <sup>4</sup> .....					
South Dakota <sup>4</sup> .....	1,290	3,324	285,986	285,986	
Tennessee.....	241	<sup>4</sup> 627	71,328	71,328	
Texas.....	332	<sup>4</sup> 863	43,987	43,987	
Utah.....	622	<sup>4</sup> 1,617	78,651	78,651	
Vermont.....	206	461	46,976	23,488	23,488
Virginia.....	136	545	33,876	16,938	16,938
Washington <sup>4</sup> .....	3,013	<sup>4</sup> 7,834	519,538	519,538	
West Virginia.....	108	<sup>4</sup> 281	16,086	16,086	
Wisconsin.....	7,173	17,932	2,180,790	1,930,790	250,000
Wyoming <sup>4</sup> .....	95	279	22,294	22,294	

<sup>1</sup> Includes revised figures for Illinois.<sup>2</sup> No mothers' aid law.<sup>3</sup> Mothers' aid discontinued.<sup>4</sup> Estimated on basis of 2.6 children per family, the average rate for 20 States reporting in December, 1933.<sup>5</sup> Estimated on basis of trends in comparable States from which reports have been received.<sup>6</sup> Law not in operation.

Source: The U. S. Children's Bureau.

TABLE 19.—Funds for State maternal and child-health work

State	1928			1934	Percent increase 1934 over 1928	Percent decrease 1934 under 1928
	Total funds	Federal	State			
Delaware.....	\$18,008.02	\$11,504.01	\$6,504.01	\$33,000.00	83.3	-----
Pennsylvania.....	132,621.98	68,810.99	63,810.99	197,539.00	48.9	-----
Maine.....	25,000.00	15,000.00	10,000.00	26,300.00	5.2	-----
Massachusetts.....	78,275.00	-----	78,275.00	80,850.00	3.3	-----
New Hampshire.....	20,976.62	12,988.31	7,988.31	21,620.50	3.1	-----
Rhode Island.....	24,276.28	14,076.28	10,200.00	24,065.00	-----	0.9
Illinois.....	70,000.00	-----	70,000.00	69,070.00	-----	1.3
Connecticut.....	<sup>1</sup> 32,760.00	-----	32,760.00	29,392.00	-----	10.3
New Jersey.....	118,163.55	31,284.55	86,879.00	103,872.52	-----	12.1
Wisconsin.....	50,752.00	27,751.62	23,000.38	43,350.00	-----	14.6
Maryland.....	33,554.00	19,277.00	14,277.00	26,844.00	-----	20.0
Minnesota.....	47,000.00	26,099.65	20,900.35	36,000.00	-----	23.4
South Dakota.....	7,500.00	7,500.00	-----	5,000.00	-----	33.3
Arizona.....	19,507.42	12,253.71	7,253.71	12,890.00	-----	33.9
New York.....	210,041.78	80,041.78	130,000.00	134,500.00	-----	36.0
Virginia.....	75,574.00	25,574.00	50,000.00	40,372.00	-----	46.6
Kentucky.....	47,597.43	26,298.64	21,298.84	25,200.00	-----	47.1
Michigan.....	<sup>1</sup> 64,741.11	34,741.11	30,000.00	31,940.00	-----	50.7
Missouri.....	49,186.81	24,186.81	25,000.00	23,799.00	-----	51.6
Texas.....	77,902.52	41,450.52	36,452.00	34,840.00	-----	55.3
Montana.....	24,400.00	13,700.00	10,700.00	10,500.00	-----	57.0
Georgia.....	64,438.89	35,451.10	28,987.79	26,000.00	-----	59.7
North Dakota.....	8,000.00	6,500.00	1,500.00	3,056.00	-----	61.8
North Carolina.....	49,519.66	27,259.56	22,260.00	18,500.00	-----	62.6
Washington.....	8,387.00	5,000.00	3,387.00	3,000.00	-----	64.2
Mississippi.....	49,076.58	22,076.58	27,000.00	15,150.00	-----	69.1
Wyoming.....	<sup>1</sup> 10,000.00	7,500.00	2,500.00	2,500.00	-----	75.0
Louisiana.....	30,042.00	7,521.00	22,521.00	7,000.00	-----	76.7
Kansas.....	35,000.00	20,000.00	15,000.00	8,000.00	-----	77.1
West Virginia.....	40,443.48	19,571.74	20,871.74	9,140.00	-----	77.4
Hawaii.....	18,451.92	11,725.96	6,725.96	4,100.00	-----	77.8
California.....	<sup>1</sup> 57,580.00	31,290.00	26,290.00	12,225.00	-----	78.8
Florida.....	37,906.00	16,531.72	21,374.28	7,330.00	-----	80.7
Ohio.....	53,334.00	23,585.57	29,748.43	10,048.00	-----	81.2
Oregon.....	27,533.46	15,283.46	12,250.00	4,701.00	-----	82.9
Iowa.....	42,298.91	21,085.31	21,213.60	6,600.00	-----	84.4
Idaho.....	12,500.00	7,500.00	5,000.00	1,430.00	-----	88.6
South Carolina.....	37,711.30	21,355.65	16,355.65	2,046.00	-----	94.6
Tennessee.....	55,767.00	25,767.00	30,000.00	2,912.00	-----	94.8
Alabama.....	64,173.90	25,836.95	38,336.95	2,520.00	-----	96.1
Arkansas.....	38,635.02	21,817.51	16,817.51	-----	-----	-----
Colorado.....	15,000.00	10,000.00	5,000.00	-----	-----	-----
Indiana.....	53,897.00	31,927.00	21,970.00	-----	-----	-----
Nebraska.....	17,000.00	11,000.00	6,000.00	-----	-----	-----
Nevada.....	16,044.00	10,522.00	5,522.00	-----	-----	-----
New Mexico.....	19,860.66	12,430.33	7,430.33	-----	-----	-----
Oklahoma.....	42,358.96	23,679.48	18,679.48	-----	-----	-----
Utah.....	20,500.00	12,500.00	8,000.00	-----	-----	-----
Vermont.....	5,000.00	5,000.00	-----	-----	-----	-----

<sup>1</sup> For four States (California, Connecticut, Michigan, and Wyoming), 1929 figures are given.  
Source: The U. S. Children's Bureau.

TABLE 20.—General economic statistics  
INDICES OF BUSINESS CONDITIONS\*

[1923-25=100]

	1929	1932	1934 (first 10 months)
1. Index of industrial production <sup>1</sup> .....	119	64	80
2. Index of factory pay rolls <sup>2</sup> .....	108	45	62
3. Index of factory employment <sup>3</sup> .....	101	62	79
4. Index of freight car-loadings <sup>2</sup> .....	106	56	63
5. Index of department store sales (value) <sup>2</sup> .....	111	69	68
6. Index of construction contracts awarded (value) <sup>2</sup> .....	117	28	33
7. Index of exports (value) <sup>2</sup> .....	115	35	49
8. Index of bank debits outside New York City.....	140	65	66

\*Survey of Current Business, February 1934, p. 3, and December 1934, p. 3.

<sup>1</sup> Unadjusted for seasonal variation; adjusted for number of working days.

<sup>2</sup> Unadjusted for seasonal variation.

<sup>3</sup> Adjusted for seasonal variation.

TABLE 20.—General economic statistics—Continued

OTHER ECONOMIC DATA		
9. Number of gainful workers, September.....	1934.....	50,277,000
Estimate of Committee on Economic Security.		
10. Per capita full-time income, wage, and salaried employees.....	1929.....	\$1,475
	1932.....	\$1,199
<i>National Income, 1929-32, Letter from Acting Secretary of Commerce, S. Doc. 124, 73d Cong., 2d sess., p. 19.</i>		
11. Average weekly factory earnings per wage earner.....	1929.....	\$28.54
	1932.....	\$17.10
	1934.....	\$20.08
<i>Survey Current Business, February 1934, p. 7, and December 1934, p. 7. Data for 1934 for first 10 months.</i>		
12. Index of cost of living (1913=100).....	December 1929.....	171
	December 1932.....	132
	June 1934.....	136
<i>Monthly Labor Review, August 1934, p. 526.</i>		
OLD-AGE DATA		
13. Population, 1930.....	60 years of age and over.....	10,385,026
	65 years of age and over.....	6,633,805
	70 years of age and over.....	3,863,200
Fifteenth Census of the U. S., 1930, vol. II, <i>Population</i> , p. 576.		
14. Number of old-age pensioners.....	1931.....	76,339
	1934.....	180,003
Data for 1931 from <i>Monthly Labor Review</i> , June 1932, p. 1261. Data for 1934 compiled by Committee on Economic Security from latest available information.		
15. Amount paid in old-age pensions.....	1931.....	\$16,173,207
	1934.....	31,192,492
Data for 1931 from <i>Monthly Labor Review</i> , June 1932, p. 1261. Data for 1934 compiled by Committee on Economic Security from latest available information.		
NATIONAL INCOME STATISTICS		
16. National income paid out.....	1929.....	\$82,300,000,000
	1933.....	46,800,000,000
<i>The National Income, 1933, release Jan. 14, 1935, p. 6, Department of Commerce.</i>		
17. National income paid out.....	1933.....	\$46,800,000,000
Wages and salaries.....		29,300,000,000
Dividends and interest.....		7,300,000,000
Net rents and royalties.....		2,300,000,000
Entrepreneurial withdrawals.....		7,900,000,000
<i>The National Income, 1933, release Jan. 14, 1935, p. 6, Department of Commerce.</i>		
18. National income paid out.....	1932.....	\$48,894,000,000
Business savings or losses.....		9,529,000,000
Income produced.....		39,365,000,000
<i>National Income, 1929-32, letter from Acting Secretary of Commerce, S. Doc. 124, 73d Cong., 2d sess., p. 10.</i>		
WHOLESALE, RETAIL, AND MANUFACTURING SALES		
19. Net wholesale sales.....	1929.....	\$38,950,108,000
	1933.....	32,030,504,000
<i>Final United States Summary of Wholesale Trade in 1933, Department of Commerce, Bureau of the Census, p. 7. The 1929 figures have been revised.</i>		
20. Net retail sales.....	1929.....	\$49,114,653,000
	1933.....	25,037,225,000
<i>United States Summary of the Retail Census for 1933, Department of Commerce, Bureau of the Census, p. 3.</i>		
21. Gross value of manufactured products.....	1929.....	\$60,960,909,712
	1933.....	31,358,840,392
<i>Census of Manufactures: 1933, Department of Commerce, Bureau of the Census, p. 1. The 1929 figures have been revised.</i>		
LIFE-INSURANCE STATISTICS		
22. Aggregate life insurance in force.....	1933.....	\$97,985,043,747
Ordinary.....		71,918,829,182
Industrial.....		17,154,472,848
Group.....		8,911,741,717
Spectator Co., <i>Year-Book—Life Insurance</i> , 1934.		
23. Average size of life-insurance policy in force, 1933:		
Ordinary.....		\$2,252
Industrial.....		210
Computed from Spectator Co. <i>Year-Book—Life Insurance</i> , 1934.		
24. Surrendered policies and loans, life insurance.....	1933.....	\$1,394,948,987
Spectator Co., <i>Year-Book—Life Insurance</i> , 1934 Also letter from Spectator Co.		



TABLE 20.—*General economic statistics—Continued*

## SAVINGS ESTIMATES

25. Annual savings through life insurance.....	1933..	\$2,950,465,899
New premium payments.....		234,951,196
Renewal premium payments.....		2,715,511,703
Spectator Co., <i>Year-Book—Life Insurance</i> , 1934.		
26. Savings and other time deposits.....	1929..	\$28,218,000,000
	1932..	24,281,000,000
Data for all reporting banks in United States.		
<i>Statistical Abstract of the United States</i> , 1933, p. 242, table 252.		







SUPPLEMENTAL STATEMENTS TO THE REPORT OF THE ADVISORY COUNCIL TO  
THE COMMITTEE ON ECONOMIC SECURITY

WASHINGTON, D. C.,  
December 15, 1934.

HON. FRANCES PERKINS,  
*Secretary of Labor, Washington, D. C.*

DEAR MADAM SECRETARY: In accordance with your invitation given at the opening of the Advisory Council on Economic Security, indicating that you would be glad to consider views expressed by a minority or individuals, we desire to submit the following:

Our sympathy for the objective expressed by the President concerning greater social security and the removal of fear of unemployment from the worker's mind moves us to the belief that certain of the recommendations of the Advisory Council should be emphasized:

1. The first objective that should be encouraged is stabilization of employment, or assurance of employment, and this is along the line of the President's pronouncement that, if this could be accomplished, the worker would be able to look forward to at least a minimum amount for an annual wage on which to plan his family's support. This should produce better work at lower cost, reflected in lower selling prices and a consequent increase in consumption on the part of the community. No one knows how much can be done along the line of stabilization of employment, and therefore every effort should be made to encourage experiments in this direction by individual companies, who will give adequate indemnities in the shape of Government bonds or otherwise to see that their guarantees of minimum annual employment will be carried out. To show that much more can be done along this line, we quote from an article in the New Republic of December 5, entitled "Security for Americans", by Elizabeth Brandeis:

"Although benefits do not begin generally under the law until reserves have been built up for 1 year, 70 companies have already guaranteed their 3,000 Wisconsin worker two-thirds of full-time work and wages for at least 42 weeks of the current year. Many other workers are now employed on a year's salary contract, as a direct result of the act, even before it is fully operative."

The assurance given to these 3,000 Wisconsin workers is equivalent to almost 54 percent of normal annual work or pay. If this is the result after the Wisconsin law has been in effect for only a few months and in one State, surely there must be a great opportunity for stabilization of employment and assurance of a large part of an annual wage throughout the United States. The law that should be enacted should recognize this as a desirable result of the legislation and should stimulate to the greatest extent such efforts of individual companies.

2. We would call your attention to the second principal objective mentioned on the first page of the Council's report:

"The plan should serve as an incentive to employers to provide steady work and to prevent unemployment."

We feel that considerable progress can be made toward this objective if companies or industries are permitted to set up separate accounts, with the safeguard provided in the Council's report.

If a plant or industry can reduce unemployment, after a certain reserve has been built up, their contribution to the reserve becomes less, which means their cost of production is less and that the selling price to the public may be reduced. Management will be encouraged to strive for greater efficiency in plant operation, and the cost of the less regular industries will be borne by such industries, which is in line with the philosophy of the workmen's compensation acts generally adopted in this country; i. e., that the cost of the more hazardous or less efficiently managed industries is reflected in the cost of production and therefore in higher selling prices to the public, and these increased costs are not borne by the industries which are less hazardous or more efficiently managed. If the community needs the products of such more hazardous or less efficiently managed industries, the increased cost thereof should be borne by the community. Miss Brandeis, in the article previously referred to, says:



"Under a pooled unemployment-insurance fund (as in Europe) this subsidy comes in large part from competitors who operate more steadily; namely, other concerns in the same industry or other industries that compete for the consumer's dollar. For instance, coal mines run irregularly, while oil refineries or water-power plants employ their workers more nearly the year round. Now, if idle coal miners were supported in part by insurance contributions from oil refineries and water-power plants, could anyone tell which is really the cheapest fuel? If the shoe factory or automobile plant which runs the year round had to subsidize the competing factory or plant which does not, there would arise a species of unfair competition that might even force out of business the truly low-cost concern."

In Ohio, where a pooled plan has been recommended, differences in hazards are recognized and varying rates may in time be determined for the different industries.

3. Because there is such a wide difference of opinion and so little actual experience, we cordially endorse the President's view that there should be the widest opportunity for experimentation and encouragement should be given to companies and industries, whether intrastate or interstate, to experiment with standards not less favorable than those approved by a governmental administrative body.

Respectfully yours,

M. B. FOLSOM.  
M. E. LEEDS.  
S. LEWISOHN.  
RAYMOND MOLEY.  
GERARD SWOPE.  
W. C. TEAGLE.

WASHINGTON, D. C., December 15, 1934.

Hon. FRANCES PERKINS,  
Secretary of Labor, Washington, D. C.

DEAR MADAM SECRETARY: The Advisory Council has gone on record as not approving in principle employee contributions. We feel very strongly on this subject, and therefore beg leave to submit this, our position, to you for your consideration.

Employee contributions are in effect in every system of unemployment insurance in Europe, with the single exception of Russia. Experts and actuaries have worked on this problem and many have made recommendations through various State commissions for employee contributions. To mention only a few, the Minnesota commission recommended 50 percent from the employee and 50 percent from the employer; in Ohio, two-thirds from the employer and one-third from the employee (total 3 percent, although in this instance the actuary recommended 50 percent from the employer and 50 percent from the employee, 2 percent each); and in New Hampshire, 2½ percent from the employer and 1 percent from the employee. With employee contributions, the total fund can be increased over that provided merely by employer contributions, which therefore increases the amount and lengthens the period of benefits; and, even more important, employee contributions provide more effective administration and a clearer conception on the part of workers of their responsibilities as self-respecting citizens, the worker then regarding the plan as partly his own to which he has contributed, and not looking upon it as something given to him as a gratuity.

In the discussion in the Council, many held that, while unemployment insurance was a burden that should be rightly carried by the employer alone, old-age pensions were not properly a burden on industry, but that old age is an incident in everyone's life. The Council voted, however, that the burden of old-age pensions should be borne equally by employer and employee, not because it was either scientifically correct or just, but principally because this was the simplest way of accomplishing the results. Therefore, possibly by combining unemployment insurance and old-age pensions something can be done to meet these divergent views and which will give a larger fund for unemployment insurance than that recommended by the Council and make both plans effective at an earlier date than the recommendations of the Council call for. In the recommendations of the Council, both plans will be in full force and effect in 1956. Enclosed is a table and a chart which will bring both plans into full force and effect in 1952, will give a larger amount for unemployment insurance, and will make the imposition of the burden on the employer more gradual and easier to bear without unduly increasing the burden on the employee. In considering this table and chart, we appreciate, of course, that different combinations can be made as to rates and time when such rates become effective.

Respectfully yours,

M. B. FOLSOM.  
S. LEWISOHN.  
RAYMOND MOLEY.  
GERARD SWOPE.  
W. C. TEAGLE.

#### UNEMPLOYMENT INSURANCE

	Employer	Employee	Total
	Percent	Percent	Percent
1936-37 (1 year).....	1		1
1937-38 (1 year).....	1½		1½
1938-39 (1 year).....	2		2½
1939-40 (1 year).....	2½		3
1940-43 (3 years).....	3		3½
1943-46 (3 years).....	3		3½
1946-49 (3 years).....	3		3½
1949-52 (3 years).....	3		3½
1952.....	3		3½

#### PENSIONS

1936-40 (4 years).....	1½	1½	1
1940-43 (3 years).....	1½	1	1½
1943-46 (3 years).....	1	1½	2½
1946-49 (3 years).....	1½	2	3½
1949-52 (3 years).....	2	2½	4½
1952.....	2	3	5

# TOTALS

	Employer	Employee	Total
	Percent	Percent	Percent
1936-37 (1 year).....	1 1/2	1 1/2	2
1937-38 (1 year).....	2	1 1/2	2 1/2
1938-39 (1 year).....	2 1/2	1	3 1/2
1939-40 (1 year).....	3	1	4
1940-43 (3 years).....	3 1/2	1 1/2	5
1943-46 (3 years).....	4	2	6
1946-49 (3 years).....	4 1/2	2 1/2	7
1949-52 (3 years).....	5	3	8
1952.....	5	3 1/2	8 1/2

## PRELIMINARY REPORT OF THE TECHNICAL BOARD TO THE COMMITTEE ON ECONOMIC SECURITY

We have devoted considerable time to a detailed study of the preliminary report of the staff and find this report very illuminating. We congratulate Mr. Witte and the staff upon the progress of the studies. We feel, however, that further study by the staff and ourselves is required before we can make any definite or final recommendations.

As preliminary recommendations we submit the following observations:

1. The final scope of the program, as well as the rate at which it can be adopted, must be formulated in the light of business and fiscal conditions. The comprehensive program for economic security outlined in the preliminary report, would cost between 3 and 4 billion dollars per year and even more, depending on the scope of the public employment provided. The parts of the program financed exclusively or mainly by contributions of (taxes on) the employers and employees will involve approximately the following percentages of the included pay rolls (assuming as liberal benefits as outlined in the preliminary report): Unemployment insurance, 4 1/2 percent; contributory old-age insurance, 4 percent; health insurance, 3 to 5 percent (depending upon the scope). The parts involving subsidies from the Treasury would cost the following annual estimated totals per year: Noncontributory old-age pensions, \$100,000,000; mothers' pensions, \$50,000,000-\$75,000,000; contributory old-age insurance, \$500,000,000, for 35 to 40 years (with some offset, however, for the first two of these subsidies, in reduced relief costs). These costs must be borne in mind in all considerations of this program, particularly its timing.

2. With in the neighborhood of 9,000,000 persons unemployed, and above 50 percent of the 4,000,000 families and 700,000 individuals who are dependent upon the public for support on relief list because of unemployment, unemployment now constitutes the most acute economic insecurity and it must be recognized that it is likely to remain a serious problem for some time to come. Under these circumstances, the most necessary measure for economic security is the continuance of provision for relief to the full extent that is financially possible.

3. A comprehensive program affording economic security to the individual in all major hazards contains many features which cannot possibly be put into effect for several years, but the place of each in the complete program and the important matter of priorities should be set forth in the final report of the committee and, if possible, also in the legislation to be recommended to the next Congress. The legislation recommended should include an administrative set-up under which not only will there be a continuing study of all phases of the problem but the several parts of a unified economic security program may be brought into operation when conditions permit, without necessity of extensive further legislation.

4. A comprehensive, long-time program for economic security should probably include as its major elements:

### A. COMPULSORY UNEMPLOYMENT INSURANCE

On this subject the present trend of thought (subject to change) of the Board runs along the following lines:

(a) Unemployment insurance is an essential measure for the economic security of the most stable part of our industrial populations, but is not a complete, all-sufficient solution of the problem.



(b) Unemployment insurance should be strictly contractual, divorced from any means test. Unemployment insurance funds should not be used for relief or any other purposes other than the payment of ordinary benefits.

(c) Unemployment insurance should be supported by contributions from the employers and probably also from the employees. There should be no public contributions.

(d) All contributions should at the outset be pooled in a single fund but there should be further exploration of the advisability of permitting "contracting out" by separate industrial and house funds under restrictions adequately safeguarding the employees.

(e) Benefits should be paid in cash for a limited period only, in proportion to the claimant's period of employment, and should be sufficient to support the family while being paid.

(f) If constitutional, a nationally administered system of unemployment insurance is to be preferred to a State system, but the committee should be satisfied that a nationally administered system is constitutional before commitments in favor of such a system are made to the public.

(g) If unemployment insurance is to be developed under a system of State administration or if industrial or house funds are permitted, a portion of all contributions should be set aside in a national reinsurance fund to guarantee payment of the contractual benefits from the separate funds.

#### C. OLD-AGE SECURITY

As we now see the problem of the aged, a long-time program for economic security should include:

(a) State-administered noncontributory old-age pensions based on a revised means test, with Federal subsidies conditioned upon compliance with standards which will liberalize the restrictive-resident and other provisions of the existing State laws.

(b) A contributory old-age insurance system which should, if at all possible, be administered by the Federal Government. This system should be based on reserve principles, but should grant a limited credit for workers who reach retirement age before enough of a reserve has been created to give them a reasonable pension. The Federal Government should assume the liability for this credit, but the cost should be spread over a considerable period of time. No pensions should be paid until after the system has been in operation for at least five years. The system should be compulsory for all employed workers (with some exceptions) and optional for other classes of the population. The benefits should be computed on a basis which will be self-sustaining from the contributions of employers and employees aside from the accrued credits to present employees now of middle age or older.

#### D. MEDICAL CARE

To provide completely for the loss resulting through sickness among the people in the lowest income groups, there should be, as we now see it:

(a) Improved provisions for public-health services, stimulated through Federal subsidies.

(b) A State-administered system of health insurance which should be compulsory for people in the lowest income groups and optional for people of somewhat higher income level. Ideally such health insurance system should cover the costs of general practitioners' and special medical services, hospital, clinical, nursing, and dental care, and should apply not merely to the wage earners but to all members of their families as well.

(c) A system of insurance against loss of wages resulting from illness. This should be administered through the same agencies as unemployment insurance, but the fund should be kept distinct from unemployment insurance.

#### E. SECURITY FOR CHILDREN

There is need for special measures for the security of children along the two following lines:

(a) Federal subsidies should be given to strengthen the existing State mothers' pension laws, for the support of widowed and deserted young families.

(b) Federal subsidies should be given for health work for mothers and children, particularly in rural areas, along the general lines of the former Sheppard-Towner Act.



## F. ACCIDENT INSURANCE

On accident insurance it is the present thought:

(a) Workmen's compensation should remain a State function, but the Federal Government should actively interest itself in securing greater uniformity in the State laws and raising their standards.

(b) Economic loss resulting from nonindustrial accidents can best be met as a part of health and invalidity insurance.

## G. SURVIVORS INSURANCE

Some provision must necessarily be made in connection with old-age insurance for surviving widows in the older age groups of pensioners who die after their insurance rights have matured. A more general form of survivors insurance may be desirable, but cannot be considered immediately feasible.

## H. INVALIDITY INSURANCE

Ideally the risks of invalidity should be covered through a social insurance system. Statistics should be gathered for the computation of costs but it now seems that this should be the last part of a complete social insurance system to be put into operation.

## I. RELIEF

There will always be a residual group for whom relief must be provided, on a means test basis. Plus this, there is a large problem in the care of the traditionally "dependent and defective" classes. Care of these classes should be regarded as a State and local responsibility, as should be relief, except in periods of great emergencies.

## REPORT OF THE TECHNICAL BOARD ON THE MAJOR ALTERNATIVE PLANS FOR THE ADMINISTRATION OF UNEMPLOYMENT INSURANCE

(Presented to the Committee on Economic Security, Nov. 9, 1934)

I. Three major alternative plans for the administration of unemployment insurance are worthy of consideration:

(1) *An exclusively Federal system.*—Under such a system the Federal Government would levy a tax on employers and possibly also on employees, the proceeds of which would be appropriated for unemployment insurance purposes. In this act it would set up a complete system for the administration of unemployment insurance specifying all conditions for benefits. The Federal Government would directly administer these benefits through the Employment Service and Federal record offices, which would probably be set up on a regional basis.

(2) *A cooperative Federal-State system on the subsidy plan.*—Under such a system the Federal Government would, likewise, levy and collect a pay-roll tax on employers and possibly also on employees. It would provide further for subsidies to States which enact unemployment insurance laws satisfying standards specified in the Federal act. These subsidies would be a stated percentage of the tax actually collected from the respective States, which would be set up as a credit in the Federal Reserve banks to the account of the State. A specified percentage (say, 20 percent) might be appropriated to the supervisory Federal department and used to finance the Employment Service, to create a reinsurance fund and/or a fund for payment of benefits to employees who lose their jobs soon after they have migrated into a new State after still having unused credits in another State. Under this system the States would likewise have to pass unemployment insurance laws which would have to satisfy the standards prescribed by Federal law, but might vary in other respects from the laws of other States. All funds would be held at all times by the Federal Government but the benefits would be administered by the States, presumably through the employment offices and central record offices.

(3) *A cooperative Federal-State system on the Wagner-Lewis principle.*—Under this system the Federal Government would impose an excise tax on employers against which there would be allowed as a credit (up to the full amount of the tax or any stated percentage thereof) the amounts paid by such employers into unemployment insurance or reserve funds established pursuant to State laws meeting standards prescribed in the Federal law. The cooperating States would collect the contributions from employers (and, if they so determined also from

employees) and deposit these in the Federal Reserve banks to be held to their credit and to be invested and liquidated under regulations to be made by the Federal Reserve Board. Under this plan, as well as under the subsidy plan, a percentage of the amounts collected by the States might be withheld by the Federal Government to be used as a reinsurance fund. The administration of benefits under this plan would be a State responsibility, but could be controlled to some (probably a limited) extent by Federal legislation.

II. Which of these three plans should be adopted should be decided primarily on practical and fundamental policy considerations, rather than on the issue of constitutionality. All three of these proposals are new and some arguments can be made both in favor and opposed to the constitutionality of each of them. What the Supreme Court might hold is largely conjecture and is likely to depend upon the detailed development of these respective plans. Among the people consulted there seems to be a quite general impression that the Federal-State subsidy plan is the least likely to be overthrown on constitutional grounds, but there are some uncertainties even as to this plan, depending upon how it is worked out in detail.

Fundamental in a decision between these plans is the question of the desirable extent of national control in this field. The exclusively national system would insure uniformity throughout the country, not only with regard to contributions but also benefits. It would ignore State lines and, thus, make it a relatively simple matter to protect the benefit rights of employees when they move from State to State. It would also make possible a pooled fund for the entire country and thereby automatically meet the problem presented by unusual unemployment in particular industries and States, without necessity for any reinsurance fund. It would also have the advantage of whatever degree of increased efficiency there may be in Federal as compared with State administration. It would be put into operation more quickly than any Federal-State plan and would come into effect at one and the same time throughout the entire country.

The major considerations on the other side concern the same fundamental question of the desirable extent of national control. An exclusively national system would necessitate decisions at the very outset on all points which could not be left to administrative discretion, such as employee contributions, industrial and plant funds, incentives to regularization, etc. Even among the people who strongly believe in unemployment insurance and who have given the most thought to this subject there are wide differences of opinion on many of the most fundamental questions arising in the preparation of an actual bill. Under a national system no experimentation on a relatively small scale would be possible and mistakes made initially would have much more serious consequences than under State system. Moreover, "all the eggs would be in one basket", with the result that if the national law should be held unconstitutional, there would be no State unemployment insurance laws which remained intact.

III. As between a Federal-State system on a subsidy plan and a Federal-State system along the lines of the Wagner-Lewis bill, the only absolutely necessary difference is that under the former all taxes (contributions) levied on industry would be collected by the Federal Government, while under the latter the contributions under the State unemployment insurance laws would be collected by the States. In practice, however, it seems almost certain that a greater degree of national control will be developed under the former than in the latter system.

The subsidy system provides a simpler method for the collection of contributions (pay-roll taxes) than the Wagner-Lewis device. It would have at least some tendency toward higher standards of administration—a most important matter. It probably would facilitate the setting up of reinsurance and transfer funds. From the point of view of expediency it has the advantage of being a brand-new proposal. Clearly it is superior to the Wagner-Lewis plan if extensive national control is desired at this time in unemployment insurance.

The Wagner-Lewis plan has the advantage over the subsidy plan that it will make it unnecessary to reach decisions under the Federal act on the most controversial questions in connection with unemployment insurance: Whether plant funds shall be permitted and whether employees shall be required to contribute. It may be that these questions could be left to the decisions of the States even under the subsidy plan but certainly not as easily as under the Wagner-Lewis device. Another important consideration is that under this plan there would be no pressure on Congress to use sources of revenue other than contributions for unemployment insurance purposes, which is likely to become very strong under both the straight national and (Federal-State) subsidy plans. Finally, under the Wagner-Lewis bill, many States would doubtless pass unemployment insurance laws before the Federal tax became effective and could be litigated. In the event



that the Federal law should then be held unconstitutional, the State laws would continue to operate. Under the subsidy plan, in contrast, while the States would also be required to pass legislation, their laws would include no revenue-raising features, so that they would become inoperative if the Federal act should for any reason be held invalid or if the Federal appropriation is discontinued.

IV. After extended consideration of these three major alternative plans for the administration of unemployment insurance, the executive committee board finds that it is divided regarding which of these systems is to be preferred. The unemployment insurance committee of the technical board, as well as the executive director, believe that the exclusively national system should be definitely rejected. Many of the members of the staff, on the other hand, favor a national system.

The unemployment insurance committee also holds the view that of the two alternative cooperative Federal-State systems the Wagner-Lewis plan is distinctly preferable to the subsidy system.

In view of the differences of opinion on the respective merits of the three major alternative systems of administration, a decision between these systems must be made by the Committee on Economic Security. An early decision is not only vital to the work of the staff but to the entire development of unemployment insurance legislation in this country. At this time unemployment insurance study commissions are functioning in nine states, charged with the duty of making recommendations on this subject to the incoming legislatures. In several other States unemployment insurance legislation was pledged in the platform of the party which won the recent election or has been promised by the successful candidate for Governor. And not only in these but many other States there is wide-spread interest in unemployment insurance legislation with good prospects for its enactment in the coming winter, when 43 State legislatures will be in session. In all States, however, there is at present great uncertainty as to what the Federal Government is going to do, which is holding up all plans for State legislation.

Whether the Committee on Economic Security believes that an exclusively national system is or is not desirable, announcement of its decision upon this point at the forthcoming national conference on economic security would be most appropriate and valuable. The States would then know whether they are to be in the picture and could make their plans accordingly. In view of the near approach of the sessions of Congress and the State legislatures, an early decision on the issue of an exclusively national versus a cooperative State-Federal system would seem imperative.

A decision regarding the type of a cooperative Federal-State system which is desired (if such a system is preferred over an exclusively national system) is less urgent. If the committee, however, has decided preferences as between the subsidy plan and the Wagner-Lewis plan, it will facilitate the work of the staff and the technical board if this question also is promptly decided.

Submitted in behalf of the executive committee.

EDWIN E. WITTE, *Executive Director.*

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#### SUPPLEMENTARY STATEMENT OF THE ADVISORY COUNCIL ON ECONOMIC SECURITY

To the Honorable FRANCES PERKINS,

*Chairman President's Committee on Economic Security,*

*Washington, D. C.*

We voted with the majority of the Advisory Council for a 3-percent pay-roll tax on employers; but we regard the revenue therefrom to be thoroughly inadequate as the foundation for benefits under the proposed Federal-State system of unemployment compensation. The actuaries of your Committee on Economic Security set before us the standards which they estimated as possible under such a 3-percent pay-roll tax. These are: First, after a worker is laid off, a 4 weeks' waiting period without benefit; then 15 weeks' benefits at 50 percent of normal wages (but in no case more than \$15); thereafter, except for long-time employees, nothing. Our vote should not be regarded as recommending such meagre coverage.

Rather, to increase the benefits, a considerable minority of the Advisory Council voted for a 5-percent tax on pay rolls; and a larger group tied the vote at 4 percent. As no benefits, under the proposed scheme, are to accrue until 3 years from now, they do not, of course, bear on the present mass unemployment. Our contention is that these standards fall short of any reasonable protection of un-

employed wage earners in normal times, which is the limited objective of the proposed legislation.

The simplest test of coverage is the length of time for which benefits run, compared with the length of time experience shows men and women seek work before they can find it. At our request the technical staff of the Committee on Economic Security drew up calculations on this point from duration tables for 1922-30 prepared by the Committee's actuaries as a basis for projecting a system of unemployment compensation. These went to show that even in "good times" 54 percent of the unemployed wage-earners would fall outside the benefit period provided by a 3-percent base; 26 percent because they would fall in the prolonged waiting period, and 28 percent because they would have been out of a job for more than 4 months. In "bad times" the proportion who would fall outside the benefit period would be as high as 80 percent; in average times, 60 percent.

These statistical estimates, with their known limitations, were brought down to everyday realities, when the results of a field survey were cited, carried out in 1928 for the Senate Committee on Labor, Senator Couzens chairman. This was a unique case study of 750 workers let go the 12 months preceding from 20 groups of industries in Chicago, Baltimore, and Worcester, Mass. It was directed by Dr. Isador Lubin, now Chief of the Bureau of Labor Statistics of the United States Department of Labor. With prosperity at its height, 42 percent of those who had secured jobs, and 55 percent of those who hadn't at the time they were interviewed, were unemployed for more than 4 months.

From another angle, the adequacy of the majority proposal was challenged, by offering tables prepared by the technical staff of the Committee on Economic Security. These compared the protection proposed under a 3-percent plan for the United States and that afforded throughout recent years by the standard benefits of the British system of unemployment insurance which has a combined 4½-percent base. Earning \$2 a day or its equivalent, either American or British worker would lose \$208 in wages if out of work for 4 months. It was pointed out that, if eligible, under the proposed Federal act the American worker would be assured a total of \$80 in unemployment compensation. The British worker, if single, would fare about as well; but if married, with 3 children, the family man would get \$130 in the same period; and if allowance were made for relative purchasing power, he would get \$156 against the American \$80. In the higher wage brackets, the American would come off favorable with the British as long as his compensation lasts, but in any case that is only part of the picture. The general run of American benefits would be cut short at 14 or 15 weeks, while the British standard benefits begin after 1 week's waiting period (against the 4 proposed for the U. S. A.) and run up to 26 weeks (against 15).

An employee with a long work record in America might qualify for half a year; in England, for a full year.

We contend that if the British people could swing such a coverage throughout the post-war depression, and are now liberalizing it, the people of the United States might at least do as well in setting up a system of security in this period of anticipated recovery, when no benefits are to accrue to unemployed workers until 1938—3 years off.

According to actuarial estimates submitted by the technical staff of the Committee on Economic Security, if 1 percent were added to the 3 percent proposed, it would double the length of the benefits. Most of us who advocated longer benefits were for finding this 1 percent by bringing the pay-roll tax on employers up to 4 percent (in the original Wagner Lewis bill it was 5 percent). Some of us were for calling on the Federal Government to contribute it. All of us broke with the proposition that a worker, who qualifies under our new system and whose savings are exhausted, shall find himself thrown upon public relief at the end of 14 or 15 weeks of unemployment compensation.

We feel so strongly that such benefits cover too short a period that, while we signed the report as a whole, we wish to make our position altogether clear to the Committee on Economic Security. Moreover, we believe it a disservice to the President for us not to point out their inadequacy.

PAUL KELLOGG.  
FRANK P. GRAHAM.<sup>1</sup>  
WILLIAM GREEN.<sup>1</sup>  
HELEN HALL.<sup>1</sup>  
HENRY OHL, Jr.<sup>1</sup>

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<sup>1</sup> Signatures received by wire and mail.



TABLE I.—Calculations as to percent of unemployed falling within 4 weeks' waiting period and 15 weeks' benefit period

[The duration tables—with their known limitations—yet show some data]

DISTRIBUTION OF THE UNEMPLOYED, 1922-30

	3-7 per- cent un- employ- ment	7-11 per- cent un- employ- ment	11-20 per- cent un- employ- ment	20-30 per- cent un- employ- ment	30-43 per- cent un- employ- ment	Comps.  F
	A	B	C	D	E	
	Percent	Percent	Percent	Percent	Percent	Percent
Under 4 weeks.....	27	26	21	21	17	21
4 to 19 weeks.....	45	46	47	34	22	40
Over 19 weeks.....	28	28	32	45	61	39

In "good times" (A and B) roughly half of unemployed within benefit period; one-fourth within waiting period; one-fourth beyond benefit period.

In "bad times" (E) 22 percent within benefit period; 17 percent within waiting period; 61 percent beyond benefit period.

In all studies 40 percent within benefit period; 20 percent within waiting period; 40 percent beyond benefit period.

Corrections for cumulative periods for each individual would probably reduce percentage in waiting period, increase percentage beyond benefits, and not much change in benefit percentage.

Source: Supplied by members of the technical staff, committee on Economic Security.

TABLE II.—Unemployment history of 754 discharged workers

[From the Absorption of the Unemployed by American Industry by Isador Lubin; Brookings Institution Pamphlet Series, vol. 1, no. 3, p. 5; published July 1, 1929]

1. THOSE WHO FOUND JOBS

Length of time unemployed	Classified by period of unemployment		Cumulated	
	Number	Percent- age	Number	Percent- age
Under 1 month.....	47	11.5	47	11.5
1 to 2 months.....	66	16.1	113	27.6
2 to 3 months.....	66	16.1	179	43.7
3 to 4 months.....	60	14.6	239	58.3
4 to 5 months.....	43	10.5	282	68.8
5 to 6 months.....	30	7.3	312	76.1
6 to 7 months.....	28	6.9	340	83.0
7 to 8 months.....	23	5.6	363	88.6
8 to 9 months.....	18	4.4	381	93.0
9 to 10 months.....	10	2.4	391	95.4
10 to 11 months.....	7	1.7	398	97.1
11 to 12 months.....	3	.7	401	97.8
12 months or over.....	6	1.5	407	99.3
Not stated.....	3	.7	410	100.0
Total.....	410	100.0		

2. THOSE STILL UNEMPLOYED WHEN INTERVIEWED

Under 1 month.....	43	12.5	43	12.5
1 to 2 months.....	40	11.6	83	24.1
2 to 3 months.....	37	10.8	120	34.9
3 to 4 months.....	34	9.9	154	44.8
4 to 5 months.....	26	7.6	180	52.4
5 to 6 months.....	22	6.4	202	58.8
6 to 7 months.....	27	7.9	229	66.7
7 to 8 months.....	18	5.2	247	71.9
8 to 9 months.....	31	9.0	278	80.9
9 to 10 months.....	19	5.5	297	86.4
10 to 11 months.....	7	2.0	304	88.4
11 to 12 months.....	8	2.3	312	90.7
12 months or over.....	29	8.4	341	99.1
Not stated.....	3	.9	344	100.0
Total.....	344	100.0		

TABLE III.—Comparisons of \$2 and \$4 wage levels of benefits under standard British unemployment insurance and the proposed American scheme, based on 3-percent pay-roll tax, 4 weeks' waiting period and 11 weeks' benefit period

[Drawn from tables prepared by the technical staff of the Committee on Economic Security. All benefit stated in dollars]

1. MARRIED MAN WITH THREE CHILDREN

A. Assuming that £1 equals \$5

Unemployed	British			Percent net loss	Proposed American			Percent
	Wages lost	Benefits	Net loss		Wages lost	Benefits	Net loss	
<b>\$2 wage per day:</b>								
1 month.....	\$52	\$20.67	\$25.33	49	\$52	\$2	\$50	96
4 months.....	208	130.67	77.33	37	208	80	128	62
6 months.....	312	200.00	112.00	36	312	84	228	73
<b>\$4 wages per day:</b>								
1 month.....	104	26.67	77.33	74	104	4	100	96
4 months.....	416	130.67	285.33	69	416	100	256	62
6 months.....	624	200.00	424.00	68	624	168	456	76

2. SINGLE MAN

<b>\$2 wage per day:</b>								
1 month.....	\$52	\$14.17	\$37.83	73	\$52	\$2	\$50	96
4 months.....	208	69.43	138.57	67	208	80	128	62
6 months.....	312	106.27	205.73	66	312	84	228	73
<b>\$4 wages per day:</b>								
1 month.....	104	14.17	89.83	86	104	4	100	96
4 months.....	416	69.43	346.57	83	416	160	256	62
6 months.....	624	106.27	517.73	83	624	168	456	73

1. MARRIED MAN WITH THREE CHILDREN

B. Assuming the £ to be equivalent to \$6 on basis of living costs, using wholesale price indices

<b>\$2 wages per day:</b>								
1 month.....	\$52	\$32.00	\$20.00	38	\$52	\$2	\$50	96
4 months.....	208	156.80	51.20	25	208	80	128	62
6 months.....	312	240.00	72.00	23	312	84	228	73
<b>\$4 wage per day:</b>								
1 month.....	104	32.00	72.00	69	104	4	100	96
4 months.....	416	156.80	259.20	62	416	160	256	62
6 months.....	624	240.00	384.00	62	624	168	456	73

2. SINGLE MAN

<b>\$2 wage per day:</b>								
1 month.....	\$52	\$17.00	\$35.00	67	\$52	\$2	\$50	96
4 months.....	208	83.30	124.70	60	208	80	128	62
6 months.....	312	127.50	184.50	59	312	84	228	73
<b>\$4 wage per day:</b>								
1 month.....	104	17.00	87.00	84	104	4	100	96
4 months.....	416	83.30	332.70	80	416	160	256	62
6 months.....	624	127.50	496.50	80	624	168	456	73

**ACTUARIAL ESTIMATES OF THE PERIODS FOR WHICH UNEMPLOYMENT INSURANCE  
BENEFITS CAN BE PAID AT VARYING CONTRIBUTION RATES**

[From p. 16, Memorandum 4176, "Major Issues in Unemployment Compensation", by Edwin E. Witte, Executive Director, Committee on Economic Security]

All estimates are based on the assumption that benefits will be one-half the weekly wage but not exceeding \$25 per week and that the unemployment insurance fund should be entirely self-sustaining. All calculations, further, are based on a Nation-wide insurance system, with 1 year of contribution before benefits become payable. The estimates on the left-hand side of the table given below are based on the experience of 1922-30 and those on the right-hand side on the experience of 1922-33, the assumption being that by the end of these periods the entire fund would be exhausted.

**TABLE IV.—Varying periods of benefit based upon using 1 additional year of contribution**

Experience 1922-30		Experience 1922-33	
Waiting period	Benefit period, weeks	Contribution rate, percent	Benefit period, weeks
weeks.....	15	3	11
	30	4	16
	52	4½	19
weeks.....	52	5	21
	13	3	10
	23	4	15
weeks.....	37	4½	18
	52	5	21
	12	3	9
	19	4	14
	28	4½	16
	43	5	19

**THE GRANTS-IN-AID TYPE OF FEDERAL-STATE COOPERATIVE PLAN FOR  
UNEMPLOYMENT COMPENSATION**

By President Frank P. Graham, chairman, Advisory Council

(Not an analysis or comparison, but a summary of some of the larger aspects of the grant-in-aid plan supported by the majority as interpreted by one of them.)

The majority of the Advisory Council on Economic Security by a vote of 9 to 7 favor the grant-in-aid type of Federal-State cooperative plan for unemployment compensation. A number of the majority are for an outright national plan. All would strongly favor the Wagner-Lewis type as against any less meritorious plan. All would present a united front against those who would oppose or delay legislation this winter. Yet the majority are clearly for the grant-in-aid plan.

The fundamental position upheld by the majority is that the grants-in-aid plan is more adaptable to our economic life and to the needs of both industry and the workers. American economic society is national in nature. It is not organized according to geographical or political subdivisions. Industries reach across States, sections, and even the continent. In this economic society labor is mobile. Workers move from industry to industry, from State to State, from an industry in one State to the same industry in another State, and from an industry in one State to a different industry in another State. In a society of fluid capital, migratory industries, shifting labor markets, seasonal, technological, and cyclical forces, unemployment is a social hazard of our dynamic industrial life.

Unemployment is, thus, a problem of industry and the Nation. Its economic and other causes and its social and other incidence involve our whole industrial order. Any Federal-State cooperative plan for unemployment compensation should, therefore, recognize, as far as practicable and wise, our national economic structure. Cooperative Federal-State legislation and administration should recognize the spheres and values of the Federal and State governments, but the States should not be required to attempt to meet situations and serve purposes not in accordance with their situation and nature.

The purpose of the Federal-State cooperation is to stimulate a more intelligent stabilization of industry and to provide more security for the workers. The Wagner-Lewis plan and the grant-in-aid plan are both Federal-State plans directed toward these two ends, with more emphasis on the State approach in the former and with more emphasis on the national nature of unemployment in the latter. The majority hold that the grant-in-aid plan can more adequately meet the needs of American industries and workers with their unemployment problems created by (1) national and interstate industries (2) mobile labor, interstate transfers, and employment records, (3) the need for Federal reinsurance, (4) for national minimum standards. Under the grant-in-aid plan the Federal-State administration can more effectively guard the integrity of the fund, the stabilization of industry, and the best interests of the workers as parts of our national dynamic society.

The collection of the tax by the Federal Government required by the grant-in-aid plan affords a clearer basis for the deposit of the money in the Federal Reserve banks. There can, under this plan, be no basis for pressure on Congress to allow the money to be deposited in local (and in some States political) banks. The value of the nationally wise use of the funds by the Federal Reserve as an aid to stabilization cannot then be jeopardized by either financial short circuits or political misuses.

Furthermore the grant-in-aid would be separate from the tax law. Congress has power to levy this geographically uniform excise tax on pay rolls. Congress also has power to appropriate money as grants-in-aid to States for a public purpose on terms laid down by Congress. Unemployment compensation and the promotion of industrial stabilization and social security constitute a clear public purpose. In the Wagner-Lewis plan the tax and the appropriation are joined in the same act. Under the strain of carrying sufficient national minimum standards and other regulations required by the interstate and national nature of industry and unemployment, such a joint act more seriously raises the question of constitutionality.

The grant-in-aid plan appears not only the stronger constitutionally, but is also a variation and development of Federal grants-in-aid which are an historically established part of our Federal-State structure. This plan also more nearly fits in with some other proposed plans to promote insurance against destitution and could more readily help to unify the collection of the funds involved in a more comprehensive program of social security.

For the purpose of securing early legislation by the States for this progress, Congress could fix a time limit as a condition for a valid acceptance by the States. Moreover, with the interests of industry and 16 million workers involved, it is inconceivable that Congress would ever fail to continue the appropriations.

The grant-in-aid plan, it seems to us, can provide for Federal-State cooperation, and is yet more adaptable. The needs of industry and the workers in our national economic society can secure and maintain Nation-wide minimum standards without as validly raising the question of constitutionality, and provides for experimentation in the interests of stabilization. It leaves open to the States experimentation along the lines of pooled insurance, plant accounts, or a combination of the two. The plan can also provide a clearer basis for experimentation along interstate and even national lines. On the basis of all these experiments, we may develop toward the best plan, whether mainly State, mainly Federal, or wholly national.

Finally, we believe that the grant-in-aid plan can better provide for essential minimum standards in the interests of the fund, the employers, and the employees. Minimum standards for all the States in such a Federal-cooperative plan would furnish the bottom below which there must be no chiseling or exploitation and above which there can be wide experimentation by the States and industries for the purpose of stabilization, increased employment, and more security for the workers of America.









## REPORT OF THE ADVISORY COUNCIL TO THE COMMITTEE ON ECONOMIC SECURITY, DECEMBER 18, 1934

### Part I. Unemployment Compensation.

#### II. Old-Age Security.

#### III. Security for Children.

#### IV. Employment and Relief.

#### V. Risks to Economic Security Arising Out of Ill Health.

Members of the advisory council: Frank P. Graham, chairman; Paul Kellogg, vice chairman; Grace Abbott; George Berry; Mary Dewson; Marion B. Folsom; William Green; Helen Hall; George M. Harrison; Joel D. Hunter; Morris E. Leeds; Sam Lewisohn; Raymond Moley; Elizabeth Morrissey; George H. Nordlin; Henry Ohl, Jr.; Right Reverend John A. Ryan; Paul Scharrenberg; Belle Sherwin; Gerard Swope; Louis J. Taber; Walter C. Teagle; Gov. John G. Winant.

### PART I. UNEMPLOYMENT COMPENSATION

All members of the Advisory Council join with the President in holding that legislation for unemployment compensation, on as nearly a Nation-wide basis as possible, should be enacted this winter.

We support his statement to the National Conference on Economic Security that "unemployment insurance must be set up with the purpose of decreasing rather than increasing unemployment." While we believe that the States should be permitted a large freedom in choosing the type of plan they establish, we strongly recommend that the Committee on Economic Security, in considering Federal legislation, and that the States in considering State legislation, keep in mind these two principal objectives:

(1) The plan should promote security by providing compensation for workers who are laid off.

(2) The plan should serve as an incentive to employers to provide steady work and to prevent unemployment.

We regard it as settled that unemployment compensation at this time should be developed along Federal-State lines. In this cooperative undertaking the Federal Government must assume the leadership. It should make it easier for the States to act by removing those disadvantages in interstate competition which are always raised against purely State legislation that involves costs to industry. This knot should be cut by requiring industries in all States (whether the States enact unemployment compensation laws or not) to make uniform pay-roll contributions. The Federal government should enact a law prescribing minimum standards, and should actively assist the States in preparing necessary State legislation and in getting their plans into operation. The Federal Government should set up an administrative authority, and as suggested by the President, should assume responsibility for the safeguarding of all unemployment reserve funds and use these funds to promote stabilization.

The States for their part must assume responsibility for State administration. Unemployment compensation benefits must necessarily be locally administered and no large bureaucracy in Washington need be created if this principle is observed. Subject to necessary minimum standards prescribed in the Federal law, wide latitude should be allowed the States to experiment with respect to the particular form and provisions of the unemployment compensation laws which they may enact. Such laws should, however, be completely divorced from relief.

The Advisory Council makes the following specific recommendations:

*Type of Federal legislation.*—The Council adopted a motion recommending:

(1) A Federal pay-roll tax.

(2) An independent act providing grants-in-aid to the States for unemployment compensation and employment stabilization, and similar grants-in-aid to industry and plant accounts, conforming to the provision and standards of this Federal act.

The motion also recommended that the Federal law shall include a stipulation to the effect that no State shall receive such grants until its State law providing for unemployment compensation is in effect, together with any other feasible provisions designed to stimulate prompt State action.



The majority favoring the Federal tax and Federal grants-in-aid type of legislation did so because they believed this type of legislation would have advantages:

(a) In dealing on a Nation-wide basis with situations which cross and transcend State boundaries.

(b) In establishing and maintaining throughout this country the essential minimum standards.

(c) In removing all obstacles to bring the reserve funds into Federal control.

(d) In that it would run less risk of unconstitutionality compared with the Wagner-Lewis type of legislation when the latter is equally equipped with provisions of minimum standards for the States.

(e) In that Federal collection and Federal control of funds through the power to allow or disallow grants, would be an important element in National control.

(f) In that it would lend itself more readily to developing a national system should that become advisable.

The minority favoring the Wagner-Lewis type of law believes that it is a general Federal-State measure, utilizing traditional American methods and local machinery in the administration of labor laws, and has the following advantages:

(a) It permits experimentation by the States as to the type of State law to be adopted, waiting periods, the amount and duration of benefits, and as to other matters in which experimentation is desirable.

(b) It secures uniformity where uniformity is essential, namely, the equalization of competitive costs.

(c) It permits the requirement of all essential uniform standards, such as that the money collected must be spent for unemployment benefits, the custody of the funds, and others.

(d) It secures the advantages of Federal supervision with decentralization of administration, and local responsibility.

(e) It avoids the hazards of an annual appropriation by Congress.

(f) It raises substantially the same constitutional questions as the subsidy type of bill, but has the great merit that should it be held unconstitutional, the State laws would be complete in themselves and would remain operative.

(g) It will result in Federal and State legislation this winter, while 44 State legislatures are meeting and there is strong public support, which is doubtful under the subsidy plan, particularly if many detailed standards to which the State laws must conform are inserted in the Federal act.

All of the members recognized that each type of Federal law has distinct merits, and wished their votes to be interpreted not as necessarily opposing either type of law, but as preferring one to the other.

*Types of State laws.*—We recommend that States be permitted to adopt any one of four types as follows:

(a) State-wide pooling of funds with or without adjustment of contribution rates according to experience.

(b) Separate accounts for any employer or group of employers who may wish to establish them, provided financial guarantees, in such manner as the State administrative agency may require, are given equal to 15 percent of their average annual pay roll during the preceding five years or two years, whichever is higher. A pooled account for all other employers, with adjustment of contribution rates according to experience.

(c) Separate accounts for any employer or group of employers who may wish to establish them, provided contributions of not less than 1 percent of the pay roll are made to the pooled account. All other income is to be pooled in such account. Financial guarantees may be required for the amount which is to be kept in the separate accounts.

(d) Separate accounts for all employers (or groups of employers) provided contributions of not less than 1 percent of the pay roll are made to a State fund.<sup>1</sup>

*Interstate industrial and company accounts.*—Interstate industrial and company accounts which will be exempt from the requirements of State laws, except as hereafter stated, and which will be administered under rules and regulations to be prescribed by the Federal administrative agency, should be authorized in the Federal act, subject to the following conditions:

(1) Only industries and employers who have a substantial number of employees in each of two or more States, shall be permitted to establish interstate accounts.

(2) Interstate industrial and company accounts must make a contribution of 1 percent on their pay roll to the pooled State accounts of States in which they operate having such accounts.

<sup>1</sup> A motion to permit a fifth type, permitting separate accounts for all employers without either guarantee or contributions to any State fund was voted down.

(3) Interstate industrial and company accounts must give as liberal benefits in each State in which they operate as required by the law of that State.

(4) Interstate industrial and company accounts must have the approval of each State in which they operate.

(5) Interstate industrial and company accounts may be set up only with the approval of the Federal administrative authority.

*Reinsurance (equalization) fund.*—While it is very desirable that there should be a Federal reinsurance fund in order to give equivalent protection to unemployed workers in all States and industries, the practical difficulties are such that the Advisory Council is satisfied that it cannot be set up at this time. We recommend, however, that the Federal administrative authority study this subject.

#### STANDARDS IN FEDERAL AND STATE LAWS

*Coverage.*—The Federal acts should apply to all employers who employ directly, or indirectly through subcontractors not subject to the law, six or more employees during any 13 weeks of the preceding year; excluding, however, employees not engaged in the usual trade, business, profession, or occupation of the employer. The States should be required to have at least as broad a coverage as that prescribed in the Federal law. However, any employment for which a separate system of unemployment compensation may be established by Federal law should be excluded. Public employees of States, counties, and cities should be made eligible to unemployment compensation on the same basis as the employees of private employers. Only the first \$50 of the salary or wage of employees covered by the act is to be included in the computation of the Federal tax.

A broader coverage than that suggested is deemed desirable by the advisory council, but practical considerations lead us to recommend that it be limited as above outlined in inaugurating the system. We recommend, however, that the Federal administrative authority study the problem of extending the coverage to the employers of less than six employees. We recommend also that it work out plans for unemployment compensation to the employees of the Federal Government, especially those employed directly on construction or other work projects.

*A. Types of unemployment benefited.*—(1) Total loss of weekly wages caused by lack of work, or partial loss of weekly wages caused by lack of work amounting over a 4-week period to an average of more than 50 percent of the normal full-time weekly earnings.

(2) Unemployment occurring in the regular work season of the year in trades in which regularly recurrent periods of slackness occur (the uncompensated slack periods to be designated by the competent administrative agency).

*B. Types of unemployment not benefited.*—(1) Unemployment of persons directly engaged in trade disputes for duration of dispute.

(2) Unemployment caused by discharge for proved misconduct.

(3) Voluntary quit without reasonable cause may be uncompensated entirely or for such period as the plan may designate.

(4) Unemployment during which workmen's compensation or other compulsory cash benefits are received.

*C. Eligibility.*—1. Fulfillment of the following qualifying periods:

(a) Employment of not less than 40 weeks in 24 months preceding claim.

(b) Employment not less than 10 weeks after maximum duration of benefits in a 12-month period is drawn.

2. Registration at public-employment office or other designated place and at times stated.

3. Able to work and available for work.

4. Unable to find suitable employment. Suitable employment means employment for which the insured is reasonably fitted, and located within a reasonable distance. No otherwise eligible employee shall be barred from or denied compensation for refusing to accept new work under any of the following conditions: (1) If the position offered is vacant due directly to a strike, lockout, or other labor dispute; (2) if the wages, hours, and other conditions of the work offered are substantially less favorable to the employee than those prevailing for similar work in the locality; (3) if acceptance of such employment would affect the applicant's right to accept or refrain from accepting or retaining membership in or observance of the rules of an organization of employees.

*Contributions.*—It was voted that the Federal tax law recommended should impose a pay-roll tax of 3 percent on employers who are subject to the act beginning with the year 1936, but with the proviso that if for the year 1935 the index of production of the Federal Reserve Board shall be less than 90 percent of the



index for 1926, the rate of tax in the first year shall be 1 percent. (Before arriving at the rate of pay-roll tax suggested, the Council rejected a proposed rate of 5 percent and a proposed rate of 4 percent by close votes, after which a rate of 3 percent was agreed on.)

The Advisory Council does not recommend that employee contributions be provided in the Federal act. A number of members, however, believe that employee contributions should be required, since they would increase the amount of the period of benefits, and, even more important, they would make the employees a part of the administration and more effective in its control. These members believe further that employee contributions would cause the worker to regard the plan as partly his own and not as something given to him as a gratuity, and thus operate to prevent malingering and similar abuses.

On the other hand, a majority of the members of the Council were opposed to the principle of employee contributions. They felt that compulsory employee contributions are unjust, and while they are willing to leave this question up to the States, are opposed to any provisions for employee contributions in the Federal law. In their opinion, contributions paid by employers are, in the long run, passed on to consumers, while contributions paid by the workers, who can do nothing to reduce unemployment, cannot be so shifted. Those opposed to employee contributions regard the cost of unemployment as a legitimate charge in the cost of production. These members, as well as others sympathetic to the general principle of employee participation, felt that with a waiting period of 4 weeks recommended in the Federal law, employees would be meeting a large initial share of the risk of broken work and, coupled with the 50-percent loss of income throughout the benefit period, should not be further burdened.

Some members voting with the majority took the position that while there are no overwhelming logical reasons against employee contributions there is a practical consideration in the fact that employee contributions will be necessary in old-age insurance.

The Advisory Council recommends that it be left optional with the States to require contributions from employees. In the report of the committee and in any model bill which it may promulgate, it is recommended that attention be called to the fact that more adequate benefits can be paid if contributions are increased, whether these increased contributions come from employers, employees, or the Government. A motion to increase benefits by providing a contribution from the Federal Treasury itself was voted down by a large majority.

*Depository for funds.*—The Advisory Council recommends that all reserve funds should be deposited in the Federal Reserve banks under obligation that they be so managed as to assist stabilization of business and employment. We recommend that the Federal Government should arrange so that the unused balances in the unemployment reserve accounts shall receive interest at 3 percent.

*Refunds (credits) to employers who stabilize employment.*—In States providing for industry or plant accounts, under the subsidy type of Federal law a refund should be paid to employers who have such accounts, and whose reserves equal to or exceed 15 percent of their total average pay roll during the preceding 5 years or the preceding 2 years, whichever is the higher. In States having pooled funds, with merit ratings, a similar refund should be allowed to employers who become entitled to a low rate of contributions because of their favorable experience. Under a Wagner-Lewis type of Federal act, employers who under the subsidy type of act would be entitled to a refund, should be allowed the same amount as a credit against the Federal tax.

*Benefits.*—It is recommended that the standard benefits in inaugurating the system be based on actuarial calculations for the period 1922 to 1930. This plan proposed is designed primarily for "normal times", minor depressions, and the early stages of a severe depression.

In the determination of the standard benefit, it is recommended that the actuarial computations assume a waiting period of 4 weeks and a benefit rate of 50 percent of the average weekly earnings (or in the case of regular part-time workers, average full-time earnings for that part of the week in which they are usually employed with a maximum compensation) of \$15 per week.

The length of the standard benefits should be based upon the ratio of 1 week of benefit to 4 weeks of employment, with a maximum standard benefit of not less than 14 weeks in any consecutive 12 months, except that 1 additional week of benefit should be allowed for each 26 weeks of employment against which no benefit was drawn during the 5 years preceding the filing of the claim. This additional allowance would enable employees with long and continuous employment to receive a maximum of 10 weeks' benefit in excess of the maximum allowed for standard benefits.

In view of the wide divergence in the amount of unemployment in different States and industries, it is recommended that wide latitude be allowed to States with regard to the rate of benefits, minimum and maximum benefits, minimum duration of benefits, ratio of weeks of benefit to weeks of employment, and length of the waiting period. States should have freedom to substitute their own benefit provisions for the standard benefit recommended, provided that they satisfy the Federal administrative authority that there is a reasonable prospect that they will be able to maintain payment of benefits on the basis prescribed in their law. In no event, however, is a State law to be approved unless it has a waiting period of not less than 2 nor more than 4 weeks, and prescribes a rate of benefits of at least 50 percent of the average weekly earnings, and a maximum benefit of at least \$15 per week. A minimum rate of benefits should also be included in each State law, sufficient to enable unemployed workers to maintain themselves and their families during the period while they are drawing benefits without necessity of resort to private or public charity.

Actual payment of benefits is not to begin until 2 years after the act becomes effective.

*Probationary period.*—It is recommended that the length of the probationary period which employees must satisfy before they can claim any unemployment benefits be left discretionary with the States. In the Federal tax bill no account should be taken of the probationary period, the taxes to apply to employees during their probationary period no less than thereafter.

*Interstate transfer of employees.*—The principle should be recognized that employees who have unused benefit credits should not lose those credits because they change their employment from one State to another, but no entirely practical plan to carry out this principle has as yet been worked out. It is recommended that the Federal administrative agency be given authority to study this problem and to promulgate rules for carrying out the principle herein stated prior to the time when benefits actually become payable.

*Guaranteed employment.*—It is recommended that the legislation to be enacted shall permit plans for guaranteed employment to be set up within a State or on an interstate basis subject to the following conditions:

(1) Employment for at least 55 percent of the maximum period of possible work during any calendar year computed on the basis of 52 weeks work during the year for the standard hours per week worked in such plant or those permitted under any Federal or State code applicable to such plant, whichever is the higher, must be guaranteed, and any employees who are not given an opportunity for work equal to such guaranteed minimum work period shall be entitled to recover full wages for the part of the guaranteed employment for which work is not provided.

(2) Guaranteed employment plans are to be permitted only when the guarantee applies to all employees of any company, plant, or separate department (properly defined) of such company.

(3) Guaranteed employment plans may be established only with the approval of the State administrative agency, under such financial guarantees as such authorities may require, except in interstate accounts the approval of the Federal authority shall also be required.

(4) Where approved plans for guaranteed employment have been put into operation and their conditions fully complied with, employers maintaining such plans shall have returned to them, as a subsidy, the Federal excise tax levied against them.

#### ADMINISTRATION

*State administrations.*—The Federal law should require that States must accept the provisions of the Wagner-Peyser Act and provide for the administration of unemployment compensation through the Federal-State employment offices. It should be mandatory that all personnel connected with the administration of unemployment compensation be selected on a merit basis, under rules and regulations to be prescribed by the Federal administrative agency. It should be provided in the Federal act that State administrations must furnish such statistics and reports to the Federal agency as it may require. The States should be required further to provide that disputed claims shall be heard and decided in the first instance either by an impartial paid referee or by a local committee consisting of an impartial paid chairman and representatives of employers and employees, or in such other manner as may be approved by the Federal administrative agency.



We also recommend that the Federal act require the States to set up State and local advisory councils, representative of employers, employees, and the public for State plans, the members to be chosen by the State agency; and that advisory councils, representative of employers and employees, chosen in a manner satisfactory to the appropriate Government unemployment compensation authority shall be set up for all other plans, State or interstate.

*Federal administration.*—We recommend that the national administration of unemployment compensation be vested in the United States Department of Labor, and that the responsibility for all quasi-judicial and policy decisions be vested in a representative board, which is to have quasi-independent status, but is to make all its reports through the Department of Labor. It is recommended that this board consist of the Secretary of Labor, the Secretary of Commerce, and five members appointed by the President for terms of 5 years (which shall initially be staggered so that the term of one member shall expire each year).

The Council further recommends that the chairman of the Board shall be appointed by the President, rather than be ex officio, but recommends to the President the appointment of the present Secretary of Labor as the first chairman.

No qualifications for membership on this Board are suggested for the Federal statute, but it is assumed that the President will have in mind that employers and employees as well as the public should be represented on this Board. We recommend that this Federal Board shall have the responsibility of passing upon State laws and their administration and of certifying to the Treasury their compliance with the Federal act. It should have like responsibility in regard to interstate accounts and all other matters left by the act for the determination of the Federal authority. The Board should be authorized to make studies of employment stabilization and other pertinent subjects, to publish the results of its studies, and to otherwise promote regularity of work. The conduct of the employment offices and the compilation of statistical and other information, however, is to remain a direct function of the Department of Labor. The intent of this recommendation is to make a separation between quasi-judicial and policy functions on the one hand, and the direct work of administration on the other, leaving the former to the new Board and the latter to the Department of Labor.

*Administrative expenses.*—We recommend that a percentage of the proceeds of the Federal tax shall be retained for the expenses of the Federal and State Governments in the administration of the Unemployment Compensation Act, and in sharing in the additional costs thrown on the Federal-State employment services. The Federal authority should be authorized to set a maximum limit upon the administration expenses of the State from the amount remitted by the Federal Government.

*National standards.*—It is recommended that the standards, conditions, and recommendations as to State laws, as set forth herein, shall be included in the Federal bill, regardless of the type of legislation adopted.

The majority of the council are of the opinion that the minimum standards herein provided should be incorporated in the Federal law, but the council realizes that as a matter of policy, in order to secure Federal and State legislation, the Committee on Economic Security may find it advisable to omit or amend some of these standards in the Federal act.

*Assistance to States in the preparation and passage of State legislation.*—Since the plan for unemployment compensation we recommend contemplates cooperative Federal-State action, it is essential that the National Government should actively interest itself in securing the enactment of the necessary State legislation. To this end, we recommend that the Committee on Economic Security frame model State bills incorporating the various types of legislation permitted, under the Federal act, and be prepared upon request, to provide actuarial and expert assistance in the drafting of bills for introduction in the several State legislatures.

## PART II. OLD-AGE SECURITY

Three separate but complementary measures for old-age security are recommended:

(1) A Federal subsidy to the States toward meeting the cost of noncontributory old-age pensions under old-age assistance laws complying with the standard prescribed in the Federal statute.

(2) A Federal system of old-age insurance which will be compulsory for all industrial workers who can be brought under its terms.

(3) A Federal system of voluntary old-age annuities for persons not covered compulsorily.

## NONCONTRIBUTORY OLD-AGE PENSIONS

There are now 29 States with old-age assistance laws, providing varying standards of aid to aged persons granted upon differing conditions. Many of these laws are nonfunctioning; many of the others, through financial pressure, have cut benefits below a proper minimum, and have long waiting lists of needy persons; moreover, the financial limitations of many of the States and the indifference of others, indicate that State action alone cannot be relief upon to provide either adequate or universal old-age assistance.

It is recommended:

1. That the Federal Government enter this situation by offering grants-in-aid to the States and Territories which provide old-age assistance for their needy aged under plans that are approved by the Federal authority, such plans to include proposed administrative arrangements, estimated administrative costs, and the method of selecting personnel.

2. That the grants-in-aid constitute one-half of the expenditures, including administrative expenses, for noninstitutional old-age assistance made by any State or Territory under a plan approved by this Federal authority, provided that in computing the amount of said grants-in-aid, not more than \$15 per month shall be paid in Federal subsidy on account of assistance provided for any aged persons in such State or Territory, nor more than 5 percent of the total assistance expenditures for administration.

3. A State or Territory should be permitted to impose qualifications upon the granting of assistance to needy aged persons, but it should be stipulated in the congressional statute providing for the grants-in-aid that no plan shall be approved by the Federal administrative agency unless its old-age-assistance laws and its administration measure up to the following standards:

(a) Is State-wide or Territory-wide, and if administered by subdivisions of the State or Territory, is mandatory upon such subdivisions.

(b) Establishes or designates a State welfare authority which shall be responsible to the Federal Government for the administration of the plan in the State; and which shall administer the plan locally through local welfare authorities.

(c) Grants to any claimant the right of appeal to such State authority.

(d) Provides that such State authority shall make full and complete reports to the Federal administrative agency in accordance with rules and regulations to be prescribed by the Federal administrative agency.

(e) Provides a minimum assistance grant which will provide a reasonable subsistence compatible with decency and health, provided that in the event that the claimant possesses income this minimum grant may be reduced by the amount of such income.

(f) Provides that an old person is entitled to aid if he satisfies the following conditions:

(1) Is a United States citizen.

(2) Has resided in the State or Territory for 5 years or more, within the 10 years immediately preceding application for assistance.

(3) Is not an inmate of an institution.

(4) Has an income inadequate to provide a reasonable subsistence compatible with decency and health.

(5) Possesses no real or personal property, or possesses real or personal property of a market value of not more than \$5,000.

(6) Is 70 years of age or older; provided that after January 1, 1940, assistance shall not be denied to an otherwise qualified person after he is 65 years of age or older.

(g) Provides that at least so much of the sum paid as assistance to any aged recipient as represents the share of the United States Government in such assistance, shall be a lien on the estate of the aged recipient, which, upon his death, shall be enforced by the State or territory, and the amount collected reported to the Federal administrative agency.

4. The cost of the Federal subsidy to the Federal-State noncontributory old-age pensions will require annual appropriations from the Treasury. If, however, a Federal compulsory contributory old-age annuity scheme is adopted, and the fiscal position of the Government indicates financing old-age assistance grants by borrowing, the reserves of the compulsory contributory old-age insurance scheme might be utilized for this purpose. If such a borrowing policy is adopted, formal certificates of indebtedness carrying 3-percent interest should be issued by the Treasury to the Federal authority administering the compulsory contributory old-age annuity scheme.

## CONTRIBUTORY OLD-AGE INSURANCE

A Federal old-age-insurance system is recommended, to be instituted at the earliest date possible, on the following plan:

1. *Scope.*—The act shall include on a compulsory basis all manual wage earners and those nonmanual wage earners who are employed at a rate of not more than \$100 per week; provided, however, that no wage in excess of \$50 per week shall be counted for insurance purposes. Wage earners in agriculture, governmental employment, and railroad service are not included on a compulsory basis.

2. *Tax on employers and employees.*—A tax shall be levied on employers and employees included within the scope of the compulsory provisions of the plan equal to the following percentages of pay roll: 1 percent in the first 5 years the system is in effect; 2 percent in the second 5 years; 3 percent in the third 3 years; 4 percent in the fourth 5 years; and 5 percent thereafter. Taxes shall be paid on both pay roll and wages on the assumption that the weekly wage of a single worker does not exceed \$50.

It is recommended that employers and employees each pay one-half of the above percentages, with the employer responsible for the payment of the employee's tax but entitled to deduct the same amount from the wages due the employee.

3. *Federal contributions.*—After a contingency reserve of reasonable proportions has been accumulated (approximating one-fifth of the full reserve), the Federal Government shall contribute annually an amount sufficient to maintain such a reserve.

4. *Benefits.*<sup>1</sup>—No annuities are to be paid until the system has been in operation for 5 years nor to any worker who has not made 200 weekly contributions. Thereafter the following benefits are to be paid on retirement at age 65 or later to worker (a) who entered insurance before attaining age 60 and (b) on whose account at least 200 joint weekly contributions have been paid, provided that contributions made after reaching the age of 65 years shall not affect the amount of the annuity.

It is proposed to provide a larger relative annuity for lower-paid workers by weighting more heavily the first \$15 of weekly wage. In the following description of benefits, however, the average percentage paid to all wage groups is used in indicating the annuities payable in each year.

(a) A pension equal to 15 percent of the average weekly contribution wage (not counting that portion of average weekly contribution wage in excess of \$35 weekly) to workers retiring in the sixth year the system is in operation. Pension percentages are to be increased by 1 percent each year in the next 5 years and by 2 percent each year in the following 10 years, thus bringing the percentage to a maximum of 40 percent of the joint contributions 20 years after the system comes into operation. In no case shall the pension be less than the amount purchasable by the worker's own contributions.

(b) A death benefit to beneficiaries of insured workers who die prior to retirement equal to worker's own contributions accumulated with interest at 3 percent.

(c) A death benefit to beneficiaries of insured workers who die after retirement equal to the accumulated value of the worker's own contributions at time of retirement, less the aggregate amount paid to the worker as a pension.

5. *Administration.*—While the collection of the funds and the control of the administration will be national, local agencies will be used so far as possible in the operation of the system. The guaranties recommended would be impossible in any but a straight national system, since they must be based on the actuarial experience of the population as a whole. It is contemplated that the old-age-insurance reserve funds will be invested and managed by the Treasury (or the Federal Reserve Board) on the same basis as the unemployment-insurance funds. All other aspects of administration are to be vested in a Federal insurance authority. It is recognized that the administration of an insurance plan for such a number of persons is a large undertaking, and to prevent duplication and to reduce administrative costs it is recommended that the same State and local agencies handling unemployment insurance be utilized for this purpose. Other State and local labor agencies will also have to cooperate in the administration.

<sup>1</sup> This plan of benefits applies only to persons entering the insurance system during the first 5 years of its operation and is organized to cover the situation of workers who are middle-aged and over at the time that the system goes into operation. The permanent scheme of benefits not having to meet that situation will, while following the general plan outlined here, adjust the full annuity to the contributory period of a normal working life.



## VOLUNTARY OLD-AGE INSURANCE

In addition to the compulsory old-age insurance plan, it is proposed that there be established, as a related but separate undertaking a voluntary system of Government old-age annuities, for restricted groups as indicated below. Under such a plan, the Government would sell to individuals, on a cost basis, deferred life annuities similar to those issued by commercial insurance companies; that is, in consideration of premiums paid at specified ages, the Government would guarantee the individual concerned a definite amount of income starting at, say, 65 and continuing throughout the lifetime of the annuitant.

The primary purpose of a plan of this character would be to offer persons not included within the compulsory insurance arrangement a systematic and safe method of providing for their old age. The plan could also be used, however, by insured persons as a means of supplementing the limited old-age income provided under the compulsory plan.

Without attempting to outline in detail the terms under which Government annuities should be sold, it is believed that a satisfactory and workable plan, based on the following principles, could be developed without great difficulty:

1. The plan should be self-supporting, and premiums and benefits should be kept in actuarial balance by any necessary revision of the rates indicated by periodical examinations of the experience.

2. The terms of the plan should be kept as simple as practicable in interest of the economic administration and to minimize misunderstanding on the part of individuals utilizing these arrangements. This could be accomplished by limiting the types of annuity offered to two or three of the most important standard forms.

3. In recognition of the fact that the plan would be intended primarily for the same economic groups as those covered by compulsory annuities, the maximum annuity payable to any individual under these arrangements should be limited to \$100 per month. The plan should be extended to persons of the lowest wage groups who are able to build up only small annuities, by providing for the acceptance of relatively small premiums (as little as \$1 per month).

4. The plan should be managed by the insurance authority along with the compulsory old-age insurance system.

No estimates have been made as to the amount of annuity reserves that would be accumulated under a plan such as that proposed above. It is believed, however, that the fiscal problems presented by such reserves would not be serious.

Judging by experience abroad, relatively few persons will voluntarily take out such annuities, unless the government actively interests itself in promoting them.

## PART III. SECURITY FOR CHILDREN

In the last analysis, security for family life, insurance of an environment in which the rights of children are safeguarded, is the principal objective in an economic security program. All the measures which the Council have considered—unemployment compensation, an employment and public assistance program, adequate health measures, and even old-age pensions, which lift the burden of the support of the aged from those of middle age whose resources are needed for the care and education of their children—could be described as child-welfare measures. But in addition to these general measures, certain special measures are necessary for the protection of children. Two groups of such measures to be administered by the Children's Bureau of the United States Department of Labor were submitted to the Council with the endorsement of the Special Advisory Committee on Child Welfare and in the case of the recommendations as to child and maternal health, of the Special Advisory Committee on Public Health, as well as the Child Welfare Committee. These measures which were considered and approved by the Council are, briefly, as follows:

1. Strengthening and expanding of mothers' pensions and of State and local services for the protection and care of homeless and neglected children and children whose surroundings are such as gravely to impair their physical and social development, through a program supported jointly by Federal grants-in-aid and State and local appropriations.

Mothers' pensions, designed to bring security in their own homes and under their mothers' care to children who are deprived of a father's support by death, incapacity, etc., and for whom long-time care must be provided, are now authorized by legislation enacted in 45 States. Such pensions are, however, actually granted by less than half the local units empowered to provide this form of care, and in many of these the amounts of the grant are inadequate to safeguard



the health and welfare of the children. Of the present annual expenditures of approximately \$37,200,000, local appropriations total \$31,200,000, and State appropriations amount to \$6,000,000. In order to take care of those now on waiting lists, poor relief, or emergency unemployment relief, and those for whom existing grants are inadequate, State appropriations should be increased, and it is estimated that approximately \$25,000,000 a year for Federal grants-in-aid of this program will be required for the first 2 years, rising to a possible \$50,000,000 as the program develops. In this connection, it is noted that the Federal Government, through the Federal Emergency Relief Administration, is now spending much more than \$25,000,000 on families probably eligible for mothers' aid. Federal grants should be conditioned on the State laws being made mandatory on the local units and on approved plans which would insure minimum standards in investigation, amount of grants, etc., and after June 30, 1937, State financial participation, which might take the form of equalization grants to local units or per capita grants as the individual States desired. An appropriation of \$1,500,000 a year is approved for assistance to State welfare departments in promoting more adequate care and protection of children and strengthening local public child-welfare agencies.

2. A child and maternal health program involving Federal assistance to the States, and through the States to local communities, in the extension of maternal and child health service, especially in rural areas was approved. Such a program, it is understood by the Council, would include (a) education of parents and professional groups in maternal and child care, and supervision of the health of expectant mothers, infants, preschool, and school children and children leaving school for work, (b) provision for a rural maternal nursing service, (c) demonstrations of methods by which rural mothers may be given adequate maternal care, and (d) provision for transportation, hospitalization, and convalescent care of crippled children, in areas of less than 100,000 population. This program should be developed in the States under the leadership of the State departments of health or public welfare, in close cooperation with medical and public-welfare agencies and groups, and other agencies, public and private, concerned with these problems. The committee submitting this plan estimated that approximately \$7,000,000 a year will be required for this program, to be increased as the program develops.

#### PART IV. EMPLOYMENT AND RELIEF

The report of the Special Committee of Employment and Relief Advisory to the President's Committee on Economic Security was referred to the Council for consideration and after discussion by a subcommittee and the full Council, the report was adopted in principle.

The main recommendations of the report which are herewith restated and, reaffirmed are:

##### I. GOVERNMENT EMPLOYMENT PROGRAM

1. All of those on relief who can be employed should be given work. To accomplish this end a governmental employment program is necessary.

2. Great care must be taken to avoid any governmental work program which will nullify its own gains by retarding recovery.

3. Programs can be devised which will provide real work for large numbers of the unemployed. In selecting projects the following things should be kept in mind:

(a) The program should be varied so that workers of many different skills may be employed; it should be widely distributed geographically; it should be free as possible from requirements which cause delays and hinder ready adaptation to the needs of the unemployed, such as insistence upon self-liquidation or work by contract.

(b) The present program of public works and work-relief projects should be studied and extended as far as possible. Special attention should be given to the processing of surplus products and production for use.

(c) Continuous study should be given to the adopted or suggested programs of other departments of the Federal, State, and local governments. For example, the committee on medical care is recommending the construction of 500 rural hospitals and other sanatoria. Work programs relating to the housing needs of communities can be greatly developed and the rehousing of dependent families in slum areas to be torn down is a matter which should be studied.

4. Unless work is separated from relief it loses most of its social values to the worker. Therefore the Government employment program should be divorced

completely from relief, and should be set up separately from the public-assistance program recommended in this report.

5. Candidates for employment should be selected on the basis of their ability, not their need, but as there probably will not be sufficient Government work to give employment to everyone not now employed, applicants should be required to show that they are dependent on their own earnings and that they have had previous regular work experience.

6. The proper selection of these applicants, and their reabsorption into private industry cannot be properly done unless the work of the United States Employment Office and the State employment offices is expanded and strengthened and the personnel in many States improved.

7. There must be close and constant cooperation between all employment offices and the responsible authorities in governmental public-assistance departments.

## II. EDUCATIONAL PROGRAM FOR YOUTH

The committee believes that the security program should contain special educational provisions for those between the ages of 16 and 21. By utilizing the educational facilities which the Nation provides, and strengthening them where necessary, education could replace work as the element necessary for security for that age group. In this way a million or more competitors would be withdrawn from the labor market.

## III. PUBLIC ASSISTANCE PROGRAM

It is very important to retain the gains which have been made in the administration of public assistance in the last few years. The standards of service are higher and relief more nearly reaches adequacy mainly because there has been Federal financial aid to the States and supervision of their work. There has also been State aid and supervision of the counties and townships. These gains cannot be made permanent without the revision of all the so-called "poor laws" in most of the States. It is rarely that such an opportunity comes to change a whole group of antiquated and sometimes inhuman laws. To do that and to retain the good in the present emergency set-up, a plan is advocated for a Federal department or administration through which equalization funds would be administered to the States. This would be a powerful influence in building up State and local agencies which would be able in turn to do away with the evils of the present relief system. Strong State and local departments of public welfare, well organized on a permanent rather than an emergency basis, should be encouraged as a means of providing assistance according to the varying needs of families and individuals. The best known methods are necessary to counteract the demoralization and insecurity which result from the social hazards encountered. Such assistance should be adequate, timely, certain, and well administered and the State and local administrations developed on a permanent basis should be encouraged to give most careful attention to the selection and training of qualified personnel. It is therefore recommended:

1. That there should be a permanent public welfare bureau, department, or administration in the Federal Government which should administer all Federal public-assistance funds and coordinate Federal, State, and local public-assistance efforts; and in which should be focused the development of whatever relationship should exist as between public assistance and other measures of economic security.

2. That we recommend that the proposed Federal bureau or department of public welfare be given authority to require a State to consolidate its welfare functions in one satisfactory permanent department with appropriate local units as a condition to the use of State and local machinery in the administration and distribution of Federal funds.

3. That the committee asks support for a unified welfare program, Federal, State, and local. This should be a well-rounded program, unified administratively as well as financially. The committee believes that Federal grants-in-aid are urgently needed not only for unemployment compensation, but also for old-age pensions, mothers aid, general home assistance, care of homeless children and adults, and other parts of the proposed unified welfare program. The committee also expresses its belief that no hard and fast line can be drawn between any of these categories.

It will not be possible for the State and local governments to assume full responsibility for those families whose needs would not be met by a work program but the Federal Government should, through its proposed welfare administration secure all possible cooperation from these subdivisions of government.

## **PART V. RISKS TO ECONOMIC SECURITY ARISING OUT OF ILL HEALTH**

The Advisory Council wishes to give general endorsement to the proposals of the staff and its advisory medical, public-health, hospital, and dental committees relative to public health and medical care. Specifically the Council approves the proposal for annual Federal appropriations of not less than \$10,000,000 to the United States Bureau of Public Health for the following purposes:

To the Public Health Service: (1) For grants-in-aid to counties and local areas unable to finance adequate public-health programs with local and State resources, to be allocated through State departments of health; (2) for direct aid to States in the development of State health services and the training of personnel for State and local health work; (3) for additional personnel within the Service for investigation of disease and of sanitary or administrative problems which are of interstate or national interest and for detailing personnel to other Federal bureaus and offices and to States and localities; and

The Council emphasizes the necessity for including in the economic security program adequate measures for preventing the risks to economic security arising out of ill health, and believes that these foregoing proposals will contribute to the development of a national health plan.

The Council also approves the three sets of proposals relative to medical care, as follows:

1. Further use of Public Works Administration funds for the construction of public-health and medical institutions such as tuberculosis sanatoria, mental-disease hospitals, and health centers, where the need is shown to exist and funds are available for maintenance.

2. Use of Public Works Administration funds for the construction of general hospitals in rural areas where such institutions are needed but where no hospitals exist, with appropriations on a decreasing scale for their operation. A preliminary survey shows that there are approximately 500 such areas.

3. Extension of hospital care to persons on Federal Emergency Relief Administration relief.

The Council wishes to express its appreciation of the assistance being rendered to the staff by the medical, hospital-, and dental-advisory committees in their study of health insurance and of other measures for medical care which is still under way.







SUPPLEMENT  
TO  
REPORT TO THE PRESIDENT  
OF THE  
COMMITTEE ON ECONOMIC SECURITY



UNITED STATES  
GOVERNMENT PRINTING OFFICE  
WASHINGTON : 1935



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TABLE 2.—*Families and persons receiving emergency relief, continental United States*

Months	Resident families and persons receiving relief under the general relief and special programs					Number of trans- ients receiving relief <sup>2</sup>
	Families	Single persons	Total families and single persons	Total persons	Percent of total popula- tion <sup>1</sup>	
1933						
January.....	<sup>2</sup> 3,850,000	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )
February.....	<sup>2</sup> 4,140,000	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )
March.....	<sup>2</sup> 4,560,000	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )
April.....	4,475,322	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )
May.....	4,252,443	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )
June.....	3,789,026	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )
July.....	3,451,874	<sup>2</sup> 455,000	3,906,874	<sup>2</sup> 15,282,000	12	( <sup>4</sup> )
August.....	3,351,810	<sup>2</sup> 412,000	3,763,810	<sup>2</sup> 15,077,000	12	( <sup>4</sup> )
September.....	2,984,975	<sup>2</sup> 403,000	3,387,975	<sup>2</sup> 13,338,000	11	( <sup>4</sup> )
October.....	3,010,516	<sup>2</sup> 436,000	3,446,516	<sup>2</sup> 13,618,000	11	( <sup>4</sup> )
November.....	3,365,114	461,315	3,826,429	15,080,465	12	( <sup>4</sup> )
December.....	2,631,020	438,431	3,069,451	11,664,860	10	( <sup>4</sup> )
1934						
January.....	2,486,274	456,469	2,942,743	11,086,598	9	( <sup>4</sup> )
February.....	2,599,975	532,036	3,132,011	11,627,415	9	126,873
March.....	3,070,855	563,138	3,633,993	13,494,282	11	145,119
April.....	3,847,235	590,007	4,437,242	16,840,389	14	164,244
May.....	3,815,926	617,735	4,433,661	17,228,458	14	174,138
June.....	3,757,971	559,502	4,317,473	16,833,294	14	187,282
July.....	3,867,047	542,362	4,409,409	17,301,734	14	195,051
August.....	4,059,605	559,877	4,629,482	18,187,193	15	206,173
September.....	4,096,725	656,215	4,752,940	18,410,334	15	221,734
October.....	<sup>2</sup> 4,106,681	720,853	<sup>2</sup> 4,827,534	<sup>2</sup> 18,450,567	15	235,758
November <sup>3</sup> .....	4,225,000	750,000	4,975,000	18,900,000	15	266,000

<sup>1</sup> Based on 1930 Census of Population.<sup>2</sup> Middle of month figures, excluding local homeless which are included under general relief program.<sup>3</sup> Partially estimated.<sup>4</sup> Not available.<sup>5</sup> Partially estimated to cover the rural rehabilitation program on which reports are not yet complete.<sup>6</sup> Preliminary.

Source: Division of Research, Statistics, and Finance, Federal Emergency Relief Administration.

TABLE 3.—*Cases <sup>1</sup> receiving emergency relief—direct, work, special programs*

1934	Grand total	General relief			Special programs <sup>2</sup>
		Total	Work programs	Direct relief only	
April.....	4,437,242	4,437,242	1,176,818	3,260,424	( <sup>3</sup> )
May.....	4,433,661	4,320,187	1,343,214	2,976,973	113,474
June.....	4,317,473	4,237,425	1,477,753	2,759,672	80,048
July.....	4,409,409	4,368,195	1,723,295	2,644,900	41,214
August.....	4,629,482	4,582,434	1,922,029	2,660,405	47,048
September.....	4,752,940	4,619,496	1,950,728	2,668,768	133,444
October.....	4,827,534	4,654,402	1,998,167	2,656,235	173,132
November <sup>4</sup> .....	4,975,000	4,785,000	2,150,000	2,635,000	190,000

<sup>1</sup> Cases include each family or single person on relief, not counting transient single persons.<sup>2</sup> Rural rehabilitation program, emergency education program, student aid; excludes transients.<sup>3</sup> Cases aided under special programs in April were included in the general relief program.<sup>4</sup> Preliminary.

Source: Division of Research, Statistics, and Finance, Federal Emergency Relief Administration.

**TABLE 4.—Obligations incurred for emergency relief from all public funds by source of funds, January 1933 through November 1934, by months and by quarters<sup>1</sup>**

	Obligations incurred for emergency relief						
	Total	Federal funds		State funds		Local funds	
		Amount	Per-cent	Amount	Per-cent	Amount	Per-cent
1933							
January	\$60,827,160.86	\$31,175,001.46	51.3	\$8,898,288.71	14.6	\$20,753,870.69	34.1
February	67,375,423.32	39,850,235.88	59.1	5,921,376.42	8.8	21,603,811.02	32.1
March	81,205,631.61	51,355,220.07	63.2	5,212,394.33	6.4	24,638,017.21	30.4
First quarter	209,408,215.79	122,380,457.41	58.4	20,032,059.46	9.6	66,995,698.92	32.0
April	73,010,800.68	45,373,968.80	62.1	8,182,877.70	11.2	19,453,954.18	26.7
May	70,806,338.08	48,803,456.80	68.9	5,017,248.11	7.1	16,985,633.17	24.0
June	66,339,206.68	42,523,714.87	64.1	8,038,872.89	12.1	15,776,618.92	23.8
Second quarter	210,156,345.44	136,701,140.47	65.0	21,238,998.70	10.1	52,216,206.27	24.9
July	60,155,873.87	37,482,328.17	62.3	7,576,554.71	12.6	15,096,990.99	25.1
August	61,470,496.37	39,781,831.27	64.7	8,726,266.40	14.2	12,962,398.70	21.1
September	59,346,338.14	36,289,188.33	61.1	11,093,954.69	18.7	11,963,195.12	20.2
Third quarter	180,972,708.38	113,553,347.77	62.8	27,396,775.80	15.1	40,022,584.81	22.1
October	64,888,913.42	40,415,353.15	62.3	10,186,795.50	15.7	14,286,764.77	22.0
November	70,810,514.27	39,796,429.13	56.2	18,633,766.17	26.3	12,380,318.97	17.5
December	56,526,330.37	27,755,055.43	49.1	18,768,833.14	33.2	10,002,441.80	17.7
Fourth quarter	192,225,758.06	107,966,837.71	56.2	47,589,394.81	24.7	36,669,525.54	19.1
Total, 1933	792,763,027.67	480,601,783.36	60.6	116,257,228.77	14.7	195,904,015.54	24.7
1934							
January	53,880,834.01	29,065,736.51	54.0	16,124,460.00	29.9	8,690,637.50	16.1
February	67,668,212.60	26,462,858.11	45.9	21,832,729.56	37.9	9,372,624.93	16.2
March	69,794,802.92	32,522,395.84	46.6	25,615,747.44	36.7	11,656,659.64	16.7
First quarter	181,343,849.53	88,050,990.46	48.5	63,572,937.00	35.1	29,719,922.07	16.4
April	113,134,286.74	82,299,551.45	72.7	17,642,023.89	15.6	13,192,711.40	11.7
May <sup>2</sup>	129,222,770.62	96,741,145.12	74.9	12,647,639.02	9.8	19,833,986.48	15.3
June <sup>2</sup>	125,198,649.88	92,084,137.06	73.6	11,777,402.31	9.4	21,337,110.51	17.0
Second quarter <sup>2</sup>	367,555,707.24	271,124,833.63	73.8	42,067,065.22	11.4	54,363,808.39	14.8
July <sup>2</sup>	130,953,215.11	95,146,288.68	72.6	13,061,941.23	10.0	22,744,985.20	17.4
August <sup>2</sup>	149,424,555.07	113,308,571.80	75.8	12,226,832.75	8.2	23,889,100.52	16.0
September <sup>2</sup>	143,227,846.44	108,550,186.27	75.8	11,406,614.12	8.0	23,262,046.05	16.2
Third quarter <sup>2</sup>	423,605,616.62	317,014,046.75	74.8	36,695,438.10	8.7	69,896,131.77	16.5
October <sup>2</sup>	156,747,867.63	121,949,841.00	77.8	13,950,560.23	8.9	20,847,466.40	13.3
November <sup>3</sup>	172,750,000.00	139,430,000.00	80.7	10,670,000.00	6.2	22,650,000.00	13.1
Total, 1934 <sup>2</sup>	1,302,003,041.02	937,569,711.84	72.0	166,956,000.55	12.8	197,477,328.63	15.2
Total, 23 months <sup>2</sup>	2,094,766,068.69	1,418,171,495.20	67.7	283,213,229.32	13.5	393,381,344.17	18.8

<sup>1</sup> Includes obligations incurred for relief extended under the general relief program, under all special programs, and for administration; beginning April 1934 these figures also include purchases of materials, supplies, and equipment, rentals of equipment (such as team and truck hire), earnings of nonrelief persons employed, and other expense incident to the work program. Does not include about \$990,000,000 expended for the C. W. A., of which \$840,000,000 was derived from Federal funds and \$150,000,000 from State and local funds.

<sup>2</sup> Break-down partially estimated.

<sup>3</sup> Preliminary.

Source: Division of Research, Statistics, and Finance, Federal Emergency Relief Administration, Jan. 7, 1935. Table based on reports from State and local relief administrations.

TABLE 5.—*Estimate of unemployment in employments which are customarily covered by unemployment-insurance plans*

Year:	<i>Estimated percent of unemployment</i>	Year—Continued.	<i>Estimated percent of unemployment</i>
1922-----	13.1	1928-----	8.5
1923-----	7.3	1929-----	6.1
1924-----	9.4	1930-----	15.3
1925-----	7.8	1931-----	26.6
1926-----	7.4	1932-----	39.0
1927-----	8.3	1933-----	39.2

Source: Estimates of the Committee on Economic Security. It should be noted that these unemployment rates are indicative only of the unemployment occurring in the group of gainful workers which are customarily covered by unemployment-insurance plans, and that they do not represent the unemployment for the entire working population. These rates are higher than those for all gainful workers, because the incidence of unemployment borne by the group covered is greater than for the working population as a whole.

TABLE 6.—States arrayed by average percentage of nonagricultural unemployment—April 1930; 1933 average; and 1930-33 average

April 1930		1933 average			1930-33 average			
State	Percent of gainful workers unem- ployed	Ratio to average of all States	State	Percent of gainful workers unem- ployed	Ratio to average of all States	State	Percent of gainful workers unem- ployed	Ratio to average of all States
All States	8.5	Percent 100.0	All States	33.2	Percent 100.0	All States	25.8	Percent 100.0
1. Michigan	13.9	163.5	Michigan	45.9	138.3	Michigan	34.3	132.9
2. Rhode Island	11.2	131.8	Pennsylvania	40.2	121.1	Rhode Island	29.6	114.7
3. Montana	10.7	125.9	Arkansas	39.2	118.1	New Jersey	28.8	111.6
4. Illinois	10.3	121.2	New Jersey	38.8	116.9	Montana	28.4	110.1
5. Oregon	10.1	118.8	Arizona	38.6	116.3	Pennsylvania	28.3	109.7
6. Nevada	9.8	115.3	New Mexico	38.3	115.4	Illinois	28.0	108.5
7. Ohio	9.5	111.8	New York	38.1	114.8	New York	27.8	107.9
8. Massachusetts	9.4	110.6	Rhode Island	36.6	110.2	Nevada	27.8	107.9
9. Pennsylvania	9.0	105.9	Florida	36.6	110.2	Arizona	27.7	107.4
10. Colorado	8.9	104.7	Montana	36.4	109.6	Florida	27.1	105.0
11. New Jersey	8.9	104.7	Illinois	35.7	107.5	Massachusetts	27.0	104.7
12. California	8.8	103.5	Nevada	35.4	106.6	Ohio	26.9	104.3
13. New York	8.7	102.4	Colorado	35.3	106.3	Indiana	26.6	103.1
14. Indiana	8.6	101.2	Massachusetts	34.8	104.8	Connecticut	26.4	102.3
15. Washington	8.6	101.2	Utah	34.3	103.3	New Mexico	26.2	101.6
16. Utah	8.5	100.0	Wyoming	33.9	102.1	Utah	25.7	99.6
17. Florida	8.5	100.0	Indiana	33.4	100.6	Arkansas	25.6	99.2
18. Oklahoma	8.4	98.8	Ohio	32.2	97.0	Colorado	25.1	97.3
19. Maine	8.2	96.6	Connecticut	31.7	95.6	Washington	24.4	94.6
20. Minnesota	8.2	96.5	Texas	31.6	95.2	Wyoming	24.2	93.8
21. Vermont	8.0	94.1	Missouri	31.5	94.9	Missouri	24.2	93.8
22. North Carolina	7.9	92.9	Iowa	31.0	93.4	Oklahoma	24.2	93.8
23. New Hampshire	7.9	92.9	Vermont	30.9	93.1	Louisiana	24.1	93.4
24. Kentucky	7.8	91.8	Washington	30.7	92.5	Vermont	24.1	93.4
25. Connecticut	7.8	91.8	Louisiana	30.6	92.2	California	24.0	93.0



## ECONOMIC SECURITY ACT

TABLE 6.—States arrayed by average percentage of nonagricultural unemployment—April 1930; 1933 average; and 1930-33 average—Contd.

State	1930 average			1930-33 average		
	Percent of gainful workers unemployed	Ratio to average of all States	State	Percent of gainful workers unemployed	Ratio to average of all States	State
26. Wisconsin.....	7.8	91.3	Minnesota.....	30.3	91.3	Texas.....
27. Missouri.....	7.7	90.6	Nebraska.....	30.2	91.0	Wisconsin.....
28. Louisiana.....	7.7	90.6	West Virginia.....	29.4	88.6	Minnesota.....
29. Idaho.....	7.6	89.4	Maryland.....	28.4	88.6	Maryland.....
30. West Virginia.....	7.4	87.1	California.....	28.2	88.0	West Virginia.....
31. New Mexico.....	7.4	87.1	Oklahoma.....	28.2	88.0	Alabama.....
32. Arizona.....	7.4	87.1	Alabama.....	28.1	87.7	Maine.....
33. Wyoming.....	7.1	83.5	Wisconsin.....	28.8	86.7	Iowa.....
34. Texas.....	6.7	78.8	Idaho.....	28.6	86.8	Idaho.....
35. Arkansas.....	6.5	76.5	North Dakota.....	27.3	82.2	New Hampshire.....
36. Kansas.....	6.2	72.9	Kansas.....	26.9	81.0	Oregon.....
37. North Dakota.....	6.1	71.8	Virginia.....	25.6	77.1	Nebraska.....
38. Virginia.....	5.9	69.4	Mississippi.....	25.1	76.6	North Carolina.....
39. Nebraska.....	5.9	69.4	Kentucky.....	22.7	68.4	Virginia.....
40. Georgia.....	5.9	69.4	South Dakota.....	22.7	68.4	Kansas.....
41. Maryland.....	5.8	68.2	Tennessee.....	22.6	68.1	Kentucky.....
42. Alabama.....	5.6	65.9	Oregon.....	21.3	64.2	Tennessee.....
43. Iowa.....	5.4	63.5	New Hampshire.....	21.3	64.2	Mississippi.....
44. Tennessee.....	5.3	62.4	District of Columbia.....	21.0	63.3	North Dakota.....
45. South Carolina.....	5.2	61.2	Maine.....	20.3	61.1	District of Columbia.....
46. Delaware.....	5.2	61.2	North Carolina.....	18.4	55.4	Delaware.....
47. District of Columbia.....	4.9	57.6	Delaware.....	16.7	50.3	South Dakota.....
48. Mississippi.....	4.6	54.1	South Carolina.....	12.9	38.9	South Carolina.....
49. South Dakota.....	3.9	45.9	Georgia.....	12.6	38.0	Georgia.....

Source: Estimates derived from population and employment data reported by the U. S. Bureau of the Census, the U. S. Bureau of Agricultural Economics, and the U. S. Bureau of Labor Statistics.

TABLE 7.—Countries in which compulsory unemployment-insurance laws have been enacted and number of workers covered in each

Country <sup>1</sup>	Date of law <sup>2</sup>	Number insured <sup>3</sup>
Australia (Queensland).....	Oct. 18, 1922	175,000
Austria.....	Mar. 24, 1920	969,000
Bulgaria.....	Apr. 12, 1925	280,000
Germany.....	July 16, 1927	<sup>4</sup> 17,920,000
Great Britain and Northern Ireland.....	Dec. 16, 1911	12,960,000
Irish Free State.....	Aug. 9, 1920	359,000
Italy.....	Oct. 19, 1919	4,000,000
Poland.....	July 18, 1924	954,000
Switzerland (13 cantons).....	( <sup>5</sup> )	<sup>6</sup> 325,000
United States (Wisconsin).....	Jan. 29, 1932	330,000
Total number insured.....		38,272,000

<sup>1</sup> A compulsory law was passed in Russia in 1922, but benefit payments were suspended in 1930.

<sup>2</sup> These are the dates upon which the laws were enacted, not the dates upon which they went into effect.

<sup>3</sup> These are the most recent figures available.

<sup>4</sup> This figure represents the number covered previous to the beginning of the depression in 1929. The official figure is much smaller (12,503,000 at end of August 1933); the difference is due not to any limitation of coverage but to the fact that those unemployed workers who had exhausted their right to insurance benefits and had thus come within the scope of the communal relief were not included in the figures for the members covered by unemployment insurance.

<sup>5</sup> The first of the cantonal measures was passed in 1925.

<sup>6</sup> This figure includes persons compulsorily insured in certain communes in cantons having voluntary insurance.

Source: Compiled by the Committee on Economic Security.

TABLE 8.—Countries in which voluntary unemployment insurance laws have been enacted and number of workers covered in each

Country	Date of law <sup>1</sup>	Number insured <sup>2</sup>
Belgium.....	Dec. 30, 1920	1,038,000
Czechoslovakia.....	July 19, 1921 <sup>3</sup>	1,500,000
Denmark.....	Apr. 9, 1907	337,000
Finland.....	Nov. 2, 1917	15,000
France.....	Sept. 9, 1905	192,000
Netherlands.....	Dec. 2, 1916	502,000
Norway.....	Aug. 6, 1915	47,000
Spain.....	May 25, 1931	<sup>4</sup> 50,000
Sweden.....	Jan. 1, 1935	( <sup>5</sup> )
Switzerland (11 cantons) <sup>6</sup> .....	Oct. 17, 1924 <sup>7</sup>	195,000
Total number insured.....		3,876,000

<sup>1</sup> These are the dates for the enactment of the national laws, not the dates upon which they took effect.

<sup>2</sup> These are the most recent figures available.

<sup>3</sup> This act came into effect on Apr. 1, 1925.

<sup>4</sup> The number of persons belonging to funds which may be subject to the insurance law is 50,000. It is not definitely known whether all these persons come under the law but it is probable that the majority of them do.

<sup>5</sup> It is estimated that 23 unions with 320,000 members have funds which may be used for the insurance provided in the law. The law became effective Jan. 1, 1935. It is likely that 320,000 can be taken as a rough estimate of the number who will come under the law in its early stages.

<sup>6</sup> 7 of these cantons specify that communes may enforce compulsory insurance within their borders; the population of communes that have compulsory insurance is given in table 1.

<sup>7</sup> This is the date of the national measure. The first of the cantonal acts was passed in 1925.

Source: Compiled by the Committee on Economic Security.

TABLE 9.—*General provisions of compulsory unemployment insurance laws*

Country and year of original law <sup>1</sup>	Regular weekly contributions	Qualifying period (contributions)	Waiting period (days)	Amount of benefit	Normal duration of benefits
Australia (Queensland), 1922.	Workers, employers, State, each 6d.	26 weeks.	14.	Varies with locality, marital status, and number of dependents.	13 weeks.
Austria, 1920.	One-half workers, one-half employers, as percentage of basic wage classes.	20 weeks.	8.	Varies with wage classes, marital status, and number of dependents.	12 to 20 weeks.
Bulgaria, 1925.	Workers, employers, State, each 1 leva.	52 weeks in 2 years.	8.	16 leva daily for head of family; 10 leva all others.	12 weeks.
Germany, 1927.	Workers, employers, each 3/4 percent of basic wage classes.	do.	Varies, 3 to 14 with number of dependents.	Varies with wage classes, locality, and number of dependents.	14 weeks (means test required after 6 weeks).
Great Britain, 1911.	Workers, employers, State, each one-third, as flat rate varying with age and sex.	30 weeks in 2 years.	6.	Varies with age, sex, and number of dependents.	26 weeks.
Irish Free State, 1911.	Workers and employers contribute varying amounts; State two-sevenths of aggregate.	12 weeks.	6.	do.	1 day's benefit for each weekly contribution.
Italy, 1919.	One-half workers, one-half employers, as percentage of basic wage classes.	48 weeks in 2 years.	7.	Varies with wage classes.	90 to 120 days.
Poland, 1924. <sup>2</sup>	Wage earners 1/2 percent of wages; employers, 1 1/2 percent, State 1 percent.	26 weeks.	10.	Varies with marital status and number of dependents.	13 weeks.
Switzerland (13 cantons).	Varies with the type of insurance fund, occupation, risks involved, and laws of Canton.	180-day minimum.	3 minimum.	Maximum benefit 50 percent wages, plus 10 percent for members with dependents.	90-day maximum.

<sup>1</sup> A compulsory law was passed in Russia in 1922, but benefits were suspended in 1930, owing to an absence of unemployment.

<sup>2</sup> Poland also has a system of unemployment insurance for salaried workers to which only employers and employees contribute.

Source: Compiled mainly from the *Monthly Labor Review*, August and September 1934, "Operation of Unemployment Insurance Systems in the United States and Foreign Countries."

TABLE 10.—General provisions of voluntary subsidized unemployment insurance laws

Country and year of original law	Subsidies	Qualifying period	Waiting period	Maximum amount of benefits	Normal duration of benefits
Belgium, 1920	State pays two-thirds of contributions by members.	1 year	1 day each month plus 3 days each 6 months.	Three-fourths usual wages.	30 days each 6 months.
Czechoslovakia, 1921	State pays 2 to 3 times union benefits.	Varies with fund; 3-month minimum.	7 days	Two-thirds last wage	26 weeks.
Denmark, 1917	State, 15 to 90 percent contributions; local governments pay one-third of State subsidy.	12 months	6-day minimum; 15 maximum. Varies with fund.	Two-thirds average earnings.	Varies; 70 to 120 days.
Finland, 1917	State, one-third to two-thirds of benefits paid by funds.	6 months	6-day minimum; 18 maximum; varies.	Two-thirds average wage	120 days.
France, 1905	State, 60 to 80 percent of benefits.	do	Varies with funds	One-half normal wages	180 days.
Netherlands, 1916	Federal, one-half workers contributions; local, one-half also.	Varies; 26 weeks in general.	Varies; 6 days in general	70 percent average daily wage.	Varies; 36 to 90 days.
Norway, 1915	State one-half and more of benefits paid; local governments pay two-thirds of State subsidy.	20 weeks	Varies with fund; 3 to 14 days.	One-half daily earnings	13 weeks.
Spain, 1931	State pays varying percentage of benefits.	6 months	6 days	Three-fifths normal wages.	60 days.
Sweden, 1934 <sup>1</sup>	State pays percentage of benefits.	52 weeks in 2 years	6-day minimum; 3-month maximum.	Four-fifths usual wages	90-day minimum; 120-day maximum.
Switzerland, 1924	Federal subsidy, 38 to 43 percent of benefits plus cantonal and communal subsidies.	180-day minimum	3-day minimum	Three-fifths normal wages.	90-day maximum.

<sup>1</sup> Sweden's law became effective Jan. 1, 1935.

Source: Compiled mainly from the *Monthly Labor Review*, August and September 1934, "Operation of Unemployment Insurance Systems in the United States and Foreign Countries."



TABLE 11.—*Number of older persons gainfully occupied by age and occupation for United States, 1930*<sup>1</sup>

	45 and over	50 and over	55 and over	60 and over	65 and over	70 and over	75 and over
Total population.....	28,048,786	21,006,507	15,030,703	10,385,026	6,633,805	3,863,200	1,913,196
Total gainfully occupied.....	14,623,620	10,350,550	6,795,459	4,155,395	2,204,967	977,925	335,023
Agriculture.....	3,891,109	2,979,047	2,115,609	1,407,129	829,825	417,734	159,809
Forestry and fishing.....	84,013	58,250	36,865	21,627	11,100	4,678	1,493
Extraction of minerals.....	286,039	181,594	104,957	54,796	24,553	8,572	2,347
Manufacturing and me- chanical industries.....	4,165,502	2,837,582	1,794,848	1,047,104	518,525	205,130	61,048
Transportation and com- munication.....	994,996	656,832	400,231	222,808	100,297	33,141	9,073
Trade.....	1,889,026	1,307,044	831,557	488,493	247,726	105,367	33,616
Public service.....	351,075	270,775	192,679	126,097	69,441	29,701	8,891
Professional service.....	852,491	596,732	380,186	223,031	113,284	51,190	18,496
Domestic and personal serv- ice.....	1,566,011	1,107,365	723,292	443,768	232,989	99,963	33,500
Clerical occupations.....	546,358	355,329	215,235	120,542	57,227	22,449	6,750

<sup>1</sup> Less unknown.Source: Fifteenth Census of the U. S., 1930, vol. II, *Population*, table 3, p. 567, and vol. IV, *Occupations*, table 21, p. 42.

TABLE 12.—Age distribution of United States population by urban and rural for 1920 and 1930

Age group	Total population			Urban population			Rural population		
	1920		Accumulated percentage <sup>1</sup>	1920		Accumulated percentage <sup>1</sup>	1920		Accumulated percentage <sup>1</sup>
	Number	Number		Number	Number				
Under 5.....	11,573,230	11,444,390	.....	5,275,751	5,626,360	.....	6,297,479	5,818,030	.....
5 to 9.....	11,398,075	12,607,689	90.6	5,050,276	6,211,141	91.7	6,347,799	6,396,468	89.1
10 to 14.....	10,641,137	12,004,877	80.3	4,664,312	5,949,693	82.7	5,976,825	6,055,184	77.3
15 to 19.....	9,430,566	11,552,115	70.5	4,445,963	6,015,411	74.1	4,984,593	5,535,704	66.0
20 to 24.....	9,277,021	10,870,378	61.1	5,102,099	6,420,308	65.4	4,174,922	4,450,070	55.7
25 to 29.....	9,086,491	9,833,008	52.2	5,319,058	6,171,951	56.1	3,767,433	3,661,657	47.4
30 to 34.....	8,071,193	9,120,421	44.2	4,726,556	5,773,476	47.1	3,344,637	3,346,945	40.6
35 to 39.....	7,775,281	9,208,645	36.8	4,453,437	5,773,764	38.8	3,321,844	3,434,881	34.4
40 to 44.....	6,345,557	7,990,195	29.3	3,602,119	4,932,386	30.4	2,743,438	3,057,809	28.0
45 to 49.....	5,783,620	7,042,279	22.8	3,190,639	4,222,829	23.2	2,572,981	2,819,450	22.4
50 to 54.....	4,734,873	5,975,804	17.1	2,613,070	3,491,257	17.1	2,121,803	2,484,547	17.1
55 to 59.....	3,549,124	4,645,677	12.2	1,895,847	2,656,416	12.0	1,653,277	1,989,261	12.5
60 to 64.....	2,982,548	3,751,221	8.6	1,528,090	2,120,260	8.2	1,454,458	1,630,961	8.8
65 to 69.....	2,098,475	2,770,605	6.4	1,000,986	1,527,724	5.1	1,067,489	1,242,881	6.8
70 to 74.....	1,395,036	1,950,004	3.1	660,731	1,031,232	2.9	734,305	918,772	3.6
75 to 79.....	856,560	1,106,390	1.6	398,637	563,217	1.4	457,923	543,173	1.8
80 to 84.....	402,779	534,076	.7	185,435	267,715	.6	217,324	266,961	.8
85 to 89.....	156,539	205,469	.2	69,012	102,133	.2	87,527	103,336	.3
90 to 94.....	39,980	51,664	.1	17,626	25,147	.1	22,354	26,517	.1
95 to 99.....	9,579	11,033	.1	4,223	5,007	.1	5,356	6,025	.1
100 and over.....	4,267	3,964	.1	1,881	1,360	.1	2,386	2,604	.1
Unknown.....	148,699	94,022	.1	98,835	66,036	.1	49,864	27,986	.1
Total population.....	105,710,620	122,775,046	100.0	54,304,603	68,954,823	100.0	51,406,017	53,820,223	100.0

<sup>1</sup> Accumulated percentage based on all over first age mentioned in each age group.

\* Estimated.

† Less than one-tenth of 1 per cent.

Source: Fifteenth Census of the U. S., 1930, vol. II, *Population*, tables 7 and 16, pp. 576, 587-89.

TABLE 13.—Actual and estimated number of persons aged 65 and over compared to total population, 1860 to 2000

Year	Number aged 65 and over	Total population	Percent aged 65 and over	Year	Number aged 65 and over	Total population	Percent aged 65 and over
1860	849,000	31,443,000	2.7	1940	8,311,000	132,000,000	6.3
1870	1,154,000	38,558,000	3.0	1950	10,863,000	141,000,000	7.7
1880	1,723,000	50,156,000	3.4	1960	13,590,000	146,000,000	9.3
1890	2,424,000	62,622,000	3.9	1970	15,066,000	149,000,000	10.1
1900	3,089,000	75,995,000	4.1	1980	17,001,000	150,000,000	11.3
1910	3,958,000	91,972,000	4.3	1990	19,102,000	151,000,000	12.6
1920	4,940,000	105,711,000	4.7	2000	19,338,000	151,000,000	12.7
1930	6,634,000	122,775,000	5.4				

Source: Data for years 1860 to 1930 from the U. S. Censuses. Estimates for subsequent years by the actuarial staff of the Committee on Economic Security. These forecasts are made on the assumption of a net immigration of 100,000 annually in years 1935-39, and 200,000 annually in 1940 and thereafter.

TABLE 14.—Operation of old-age pension laws of the United States, 1934

State	Type of law	Number of pensioners <sup>1</sup>	Number of eligible age <sup>2</sup>	Percent-age of pensioners to number of eligible age	Average pension <sup>1</sup>	Yearly cost <sup>3</sup>
				Percent		
Alaska	Mandatory	<sup>4</sup> 446	3,437	11.1	\$20.82	\$95,705
Arizona	do	<sup>5</sup> 1,974	9,118	21.6	9.01	200,927
California	do	<sup>6</sup> 19,300	210,379	9.2	21.16	3,502,000
Colorado	do	8,705	61,787	14.1	8.59	172,481
Delaware	do	<sup>7</sup> 1,610	16,678	9.7	9.79	188,740
Hawaii	Optional	( <sup>8</sup> )	( <sup>8</sup> )	( <sup>8</sup> )	( <sup>8</sup> )	( <sup>8</sup> )
Idaho	Mandatory	1,275	22,310	5.7	8.85	114,521
Indiana	do	<sup>9</sup> 23,418	138,426	16.9	<sup>7</sup> 6.13	<sup>8</sup> 1,254,169
Iowa	do	<sup>4</sup> 3,000	184,239	1.6	<sup>4</sup> 13.50	<sup>9</sup> 475,500
Kentucky	Optional	( <sup>10</sup> )	( <sup>10</sup> )	( <sup>10</sup> )	( <sup>10</sup> )	( <sup>10</sup> )
Maine	Mandatory	( <sup>11</sup> )	( <sup>11</sup> )	( <sup>11</sup> )	( <sup>11</sup> )	( <sup>11</sup> )
Maryland	Optional	<sup>12</sup> 141	92,972	.2	29.90	50,217
Massachusetts	Mandatory	<sup>13</sup> 20,023	156,590	12.8	24.35	5,411,723
Michigan	do	<sup>13</sup> 2,660	148,853	1.8	<sup>12</sup> 9.59	<sup>13</sup> 306,096
Minnesota	Optional	2,655	94,401	2.8	13.20	420,536
Montana	do	1,781	14,377	12.4	7.28	155,525
Nebraska	Mandatory	( <sup>14</sup> )	( <sup>14</sup> )	( <sup>14</sup> )	( <sup>14</sup> )	( <sup>14</sup> )
Nevada	Optional	23	4,814	.5	15.00	3,320
New Hampshire	Mandatory	<sup>4</sup> 1,423	25,714	5.5	<sup>15</sup> 19.06	<sup>13</sup> 298,722
New Jersey	do	<sup>16</sup> 10,560	112,594	9.4	12.72	1,375,693
New York	do	51,228	373,878	13.7	22.16	13,592,080
North Dakota	do	( <sup>16</sup> )	( <sup>16</sup> )	( <sup>16</sup> )	( <sup>16</sup> )	( <sup>16</sup> )
Ohio	do	<sup>12</sup> 24,000	414,836	5.8	<sup>8</sup> 13.99	<sup>13</sup> 3,000,000
Oregon	do	( <sup>17</sup> )	( <sup>17</sup> )	( <sup>17</sup> )	( <sup>17</sup> )	( <sup>17</sup> )
Pennsylvania	do	( <sup>18</sup> )	( <sup>18</sup> )	( <sup>18</sup> )	( <sup>18</sup> )	( <sup>18</sup> )
Utah	do	930	22,665	4.1	8.56	95,599
Washington	do	<sup>7</sup> 2,239	101,503	2.2	( <sup>9</sup> )	( <sup>9</sup> )
West Virginia	Optional	( <sup>19</sup> )	( <sup>19</sup> )	( <sup>19</sup> )	( <sup>19</sup> )	( <sup>19</sup> )
Wisconsin	do	1,969	112,112	1.8	16.75	395,707
Wyoming	Mandatory	643	8,707	7.4	10.79	83,231
Total		180,003				31,192,492

<sup>1</sup> Where no special reference is given, the figures are as of Dec. 31, 1933.

<sup>2</sup> 1930 Census figures.

<sup>3</sup> Where no special reference is given, the figures represent actual cost for the year 1933.

<sup>4</sup> As of December 1934.

<sup>5</sup> As of Oct. 1, 1934.

<sup>6</sup> No information available or not computed.

<sup>7</sup> As of August 1934.

<sup>8</sup> Appropriation for 1934.

<sup>9</sup> Estimated from expenditures of April through November 1934, \$317,000.

<sup>10</sup> No pensions being paid.

<sup>11</sup> Not yet in effect.

<sup>12</sup> As of November 1934.

<sup>13</sup> Estimated from monthly figures.

<sup>14</sup> Not much being done due to lack of funds.

<sup>15</sup> As of September 1934.

<sup>16</sup> No pensions being paid now.

<sup>17</sup> Administered by counties; no information available for State.

<sup>18</sup> Law just being put into effect.

Source: Data collected by the Committee on Economic Security.

State	Date enacted	Date amended	In effect	Na	nts		Disqualifica- tions (see explanatory footnotes)	Other provisions(see explanatory footnotes)	Maximum amount of pension	Period of pay- ments
					Property limit	Annual income limit				
Alaska.....	1915	{1917, 1919, 1925, 1929}	1915	Mar	{Insufficient ( <sup>2</sup> ) support.	means of \$300	d, n..... a, f.....	B..... B, C.....	{M \$35 a month.. W \$45 a month.. \$30 a month..	{Quarterly. Monthly.
Arizona.....	1933		1933		\$3,000	365	a, f, n, o.....	A.....	\$1 a day.....	Do.
California.....	1929	1931, 1933..	1929		\$2,000	365	a, b, c, d, f, n.....	A, B, C.....	do.....	Monthly or quar- terly.
Colorado.....	1927	1931, 1933..	1927			300	a, d, f, i, n.....	C.....	\$25 a month.....	Monthly.
Delaware.....	1931	1933.....	1931		( <sup>2</sup> )	300	e, i, f.....	A, B, C.....	\$15 a month.....	Do.
Hawaii.....	1933	1933.....	1934	Opt	( <sup>2</sup> )	300	a, b, c, d, e, f, i, m..... a, b, c, d, e, f, i, n..... i, n.....	A, B, C, D..... A, B, C.....	\$25 a month..... \$15 a month.....	Do. Do.
Idaho.....	1931		1931	Mar	( <sup>2</sup> )	300	a, b, c, d, f, i, j.....	A, B, C.....	\$25 a month.....	Monthly or quar- terly.
Indiana.....	1933		1934		\$1,000	180	a, d, f, h, i, j, n..... a, b, c, e, f, i, k.....	B..... A, B, C.....	\$250 a year..... \$1 a day.....	Do. Not specified.
Iowa.....	1934		1934		( <sup>2</sup> )	365	a, c, d, e, f, i, n.....	A, B, C, D.....	\$25 a month.....	Monthly or quar- terly.
Kentucky.....	1926		1926	Opt	2,500	400	a, d, f, h, i, j, n.....	B.....	\$250 a year.....	Do.
Maine.....	1933		( <sup>2</sup> )	Mar	\$300	365	a, b, c, e, f, i, k.....	A, B, C.....	\$1 a day.....	Not specified.
Maryland.....	1927	1931.....	1927	Opt		365	a, c, d, e, f, i, n.....	C.....	do.....	Do.
Massachusetts.....	1930	1932, 1933..	1931	Mar	None specified..		d, "Deserving citizens."..... a, b, c, d, f, i.....		Adequate assist- ance. \$30 a month.....	Do. Monthly.
Michigan.....	1933		1933		\$3,500	365	a, c, d, e, f, i, n.....	A, B, C.....	\$1 a day.....	Monthly or quar- terly.
Minnesota.....	1929	1931, 1933..	1929	Opt	\$3,000	365	b, c, d, e, f, i..... b, c, d, e, f, i..... a, b, c, d, e, f, i.....	A, B, C..... A, B, C..... A, B, C, D.....	\$25 a month..... \$20 a month..... \$1 a day.....	Monthly. Do. Monthly or quar- terly.
Montana.....	1923		1923	Mar	( <sup>2</sup> )	300	a, c, d, e, f, i, n.....	A, B, C.....	\$7.50 a week.....	Weekly or month- ly.
Nebraska.....	1933		1933	Opt	( <sup>2</sup> )	300	d, e, f, g.....	A, C.....	\$1 a day.....	Monthly.
Nevada.....	1925		1925		\$3,000	390	a, d, f, g.....		Determined by official. \$150 a year.....	Not specified.
New Hampshire.....	1931		1931	Mar	2,000	360	a, f, i, m, n, p.....	A, B.....	\$25 a month.....	Do.
New Jersey.....	1931	1932, 1933..	1932		3,000	( <sup>2</sup> )	a, b, c, d, f.....	A, B, C, D.....	\$30 a month.....	Monthly or quar- terly.
New York.....	1930	1934.....	1930		Unable to support self. ( <sup>2</sup> )	150	a, b, c, d, f, i, l.....	A, B, C, D.....	\$30 a month.....	Monthly or quar- terly.
North Dakota.....	1933		1933		{ \$3,000; couple \$4,000	300	a, d, e, f, g, h, i, n..... a, c, d, e, f, i, n.....	A, B..... A, B, C.....	\$150 a year..... \$25 a month.....	Monthly. Do.
Ohio.....	1933		1934		\$3,000	360	a, b, c, d, f, i, l.....	A, B, C, D.....	\$30 a month.....	Monthly or quar- terly.
Oregon.....	1933		1934		\$3,000	360	a, b, c, d, l.....	C.....	do.....	Monthly.
Pennsylvania.....	1934		1934		Indigent.....		a, b, c, d, e, f, i.....	A, B, C.....	\$25 a month.....	Do.
Utah.....	1929		1929		( <sup>2</sup> )	300	a, d, e, f, g, h, i, n..... a, c, d, e, f, i, n.....	A, B, C..... A, B, C.....	\$30 a month..... \$1 a day.....	Do. Do.
Washington.....	1933		1933		( <sup>2</sup> )	360	a, c, d, e, f, i, n.....	A, B, C.....	do.....	Monthly or quar- terly.
West Virginia.....	1931		1931	Opt	No property or in- come.....	365	b, c, d, e, f, i.....	A, B, C.....	\$30 a month.....	Monthly.
Wisconsin.....	1925	1929, 1931, 1933.	1925	Ma	\$3,000	365				
Wyoming.....	1929	1931.....	1929		( <sup>2</sup> )	360				

<sup>1</sup> Since 1906.

<sup>2</sup> Annual income of any property to be computed at

<sup>3</sup> Annual income of any property to be computed at

<sup>4</sup> Required residence in United States 15 years.

<sup>5</sup> When Governor can raise funds.

<sup>6</sup> House in which applicant lives not to be considered

<sup>7</sup> Earnings and gifts up to \$100 exempt.

<sup>8</sup> Unable to maintain self.

<sup>9</sup> Mandatory from July 1, 1935, on.

#### Other provisions:

A. Transfer of applicant's property to pension authority may be demanded before pension is granted.

B. Amount of payments to be collected from estate on death of pensioner or the survivor of a married couple.

C. Allowances for funeral expenses.

D. Payments may be made to charitable or benevolent institution if pensioner is inmate.





TABLE 15.—Principal features of the old-age pension laws of the United States

State	Date enacted	Date amended	In effect	Nature of law	Administration		Degree of State supervision	Allocation of expenses			Fund provided by—	Qualifications for recipients						Disqualifications (see explanatory footnotes)	Other provisions (see explanatory footnotes)	Maximum amount of pension	Period of payments	
					State	Local		State	County	Town		Age	Citizenship	Residence		Property limit	Annual income limit					
														State (years)	County (years)							
Alaska	1915	1917, 1919, 1925, 1929	1915	Mandatory	Alaska Pioneers Home	No local administration	Territory administration	All	None	None	Territory	M 65 W 60	Required	(1)	None	Insufficient means of support. <sup>(2)</sup>		d, n	B	M \$35 a month. W \$45 a month.	Quarterly.	
Arizona	1933		1933	do	State auditor	County old-age pension commission.	Duplicate certificate to auditor; annual report.	67 percent.	33 percent.	None	State and county		do	35	Required		\$300	a, f	B, C	\$30 a month.	Monthly.	
California	1929	1931, 1933	1929	do	Department of social welfare, Division of State aid for the aged.	County board of supervisors, local department of public welfare.	Complete supervision; monthly reports.	One-half	One-half	None	do	70	15 years	15	1	\$3,000	365	a, f, n, o	A	\$1 a day	Do.	
Colorado	1927	1931, 1933	1927	do	Right of appeal to district court and supreme court.	County court; board of county commissioners, trustees.	Annual report to Secretary of State.	State fund allocated to counties in proportion to population.			State estate and liquor tax; local liquor tax.	65	do	15	5		\$2,000	365	a, b, c, d, f, n	A, B, C	do	Monthly or quarterly.
Delaware	1931	1933	1931	do	State old-age welfare commission.		State administration	All	None	None	State current revenues	65	Not required. <sup>4</sup>	5	None		300	a, d, f, i, n	C	\$25 a month	Monthly.	
Hawaii	1933	1933	1934	Optional	Territorial auditor	Old-age pension commission	Annual report to Territorial auditor.	None	Shared by county and city.	None	Counties and cities	65	30 years	15		(2)	300	e, i, f	A, B, C	\$15 a month	Do.	
Idaho	1931		1931	Mandatory	Department of public welfare.	do	Annual report only.	None	All	None	County	65	16 years	10	3		300	a, b, c, d, e, f, i, m	A, B, C, D	\$25 a month	Do.	
Indiana	1933		1934	do	State auditor	Board of county commissioners.	Annual report; duplicate certificate to auditor.	One-half	One-half	None	State and county	70	do	15	15		\$1,000	a, b, c, d, e, f, i, n	A, B, C	\$15 a month	Do.	
Iowa	1934		1934	do	Old-age assistance commission.	Old-age assistance boards	Complete supervision	All	None	None	State poll tax	65	do	10	2		(1)	\$365	a, b, c, d, f, i, j	A, B, C, D	\$25 a month	Monthly or quarterly.
Kentucky	1926		1926	Optional	None	County commissioners	None	None	All	None	County	70	do	10	10		2,500	a, d, f, h, i, j, n	B	\$250 a year	Do.	
Maine	1933	(4)	1933	Mandatory	Department of health and welfare.	Old-age pension boards	Complete supervision	One-half	One-half	One-half cities, towns, plantations	No provisions as yet	65	Required	15	1		\$300	a, b, c, e, f, i, k	A, B, C	\$1 a day	Not specified.	
Maryland	1927	1931	1927	Optional	None	County commissioners	Annual report to Governor	None	All	None	County	65	15 years	10	10			365	a, c, d, e, f, i, n	C	do	Do.
Massachusetts	1930	1932, 1933	1931	Mandatory	State department of public welfare.	Bureau of old-age assistance	Complete supervision	One-third	Two-thirds cities and towns.		State poll tax; liquor tax	70	Required	20	None		None specified	d, "Deserving citizens."		Adequate assistance.	Do.	
Michigan	1933		1933	do	State welfare department, old-age pension bureau.	Old-age pension board	do	All	None	None	State poll tax	70	15 years	10	None		\$3,500	\$365	a, b, c, d, f, i, n	A, B, C, D	\$30 a month	Monthly.
Minnesota	1929	1931, 1933	1929	Optional	None	Board of county commissioners	None	None	All	Reimburse county.	County, city, town, village	70	do	15	15		\$3,000	365	a, c, d, e, f, i, n	A, B, C	\$1 a day	Monthly or quarterly.
Montana	1923		1923	do	None	Old-age pension commission	Annual report to State auditor	None	All	None	County poor fund	70	do	15	None	(1)	300	b, c, d, e, f, i	A, B, C	\$25 a month	Monthly.	
Nebraska	1933		1933	Mandatory	Auditor of public accounts	do	do	None	All	None	County poll tax	65	do	15	None	(2)	300	b, c, d, e, f, i, n	A, B, C	\$20 a month	Do.	
Nevada	1925		1925	Optional	None	Board of county commissioners	Annual report to Governor	None	All	None	County	65	do	10	None		\$3,000	390	a, b, c, d, e, f, i	A, B, C, D	\$1 a day	Monthly or quarterly.
New Hampshire	1931		1931	Mandatory	None	County commissioners	None	None	All	Reimburse county.	do	70	do	15	15		2,000	360	a, c, d, e, f, i, n	A, B, C	\$7.50 a week	Weekly or monthly.
New Jersey	1931	1932, 1933	1932	do	Department of Institutions and agencies, division of old-age relief.	County welfare board	Complete supervision	Three-fourths	One-fourth	None	State inheritance tax and county fund.	70	Required	15	1		3,000	(1)	d, e, f, g	A, C	\$1 a day	Monthly.
New York	1930	1934	1930	do	State department of social welfare.	Public welfare district official.	do	One-half	One-half public welfare district.		State, county, city	70	do	10	1		Unable to support self.	a, d, f, g		Determined by official.	Not specified.	
North Dakota	1933		1933	do	Secretary of agriculture and labor.	Board of county commissioners.	do	All	None	None	State special tax	68	do	20	None		(2)	150	a, f, i, m, n, p	A, B	\$150 a year	Monthly.
Ohio	1933		1934	do	Department of public welfare, division of aid for the aged.	Board of aid for the aged	do	All	None	do	State	65	15 years	15	1		\$3,000 couple \$4,000	300	a, b, c, d, f	A, B, C, D	\$25 a month	Do.
Oregon	1933		1934	do	State board of control	Old-age pension commission	Annual report to State board of control.	Part of State liquor tax distributed to counties, balance paid by counties.			State liquor tax; county general fund.	70	do	15	2		\$3,000	360	a, b, c, d, f, i, l	A, B, C, D	\$30 a month	Monthly or quarterly.
Pennsylvania	1934		1934	do	Department of welfare	Board of trustees of old-age assistance fund.	Complete supervision	State fund allocated to counties according to number of people on pension rolls.			State	70	do	15	None		Indigent		a, b, c, d, l	O	do	Monthly.
Utah	1929		1929	do	None	Board of county commissioners.	None	None	All	None	County	65	do	15	5		(1)	300	a, b, c, d, e, f, i	A, B, C	\$25 a month	Do.
Washington	1933		1933	do	None	Board of county commissioners.	None	None	All	None	do	65	do	15	5		(2)	360	a, b, c, d, e, f	A, B, C	\$30 a month	Do.
West Virginia	1931		1931	Optional	None	County court	Annual audit by tax commissioner.	None	All	None	do	65	do	10	10		No property or income	a, d, e, f, g, h, i, n	B	\$1 a day	Do.	
Wisconsin	1925	1929, 1931, 1933	1925	(1)	State board of control	County judge	Annual report	One-third	Two-thirds	Reimburse county.	State, county, local	70	do	15	15		\$3,000	365	a, c, d, e, f, i, n	A, B, C	do	Monthly or quarterly.
Wyoming	1929	1931	1929	Mandatory	None	Old-age pension commission	Annual report to State auditor	None	All	None	County poor fund	65	do	15	5		(2)	360	b, c, d, e, f, i, n	A, B, C	\$30 a month	Monthly.

1 Since 1906.

2 Annual income of any property to be computed at 3 percent of its value.

3 Annual income of any property to be computed at 5 percent of its value.

4 Required residence in United States 15 years.

5 When Governor can raise funds.

6 House in which applicant lives not to be considered property.

7 Earnings and gifts up to \$100 exempt.

8 Unable to maintain self.

9 Mandatory from July 1, 1935, on.

Source: Compiled by Committee on Economic Security from State laws.

## Disqualifications:

- Inmate of any prison, jail, insane asylum, or correctional institution.
- Desertion of spouse.
- To have failed without just cause to provide support for wife and minor children.
- Relative legally liable and able to support.
- Sentence for crime.
- Disposed of or deprived oneself of property to qualify for pension.
- Need of institutional care.
- Recipient of pension from Federal, State, or foreign government.

## 1. Habitual tramp, vagrant, or beggar.

- Unable to earn at least \$1 per day.
- Spouse and children able to furnish support.
- Convicted of crime involving moral turpitude.
- To have failed to work according to ability.
- Inmate of benevolent, charitable, or fraternal institution.
- Husband, wife, parent, or child able and responsible for support.
- Children liable and able to support.

## Other provisions:

- Transfer of applicant's property to pension authority may be demanded before pension is granted.
- Amount of payments to be collected from estate on death of pensioner or the survivor of a married couple.
- Allowances for funeral expenses.
- Payments may be made to charitable or benevolent institution if pensioner is inmate.



TABLE 16.—*Old-age insurance and pension legislation in foreign countries through 1933*

## A. COMPULSORY CONTRIBUTORY OLD-AGE INSURANCE LAWS OF GENERAL COVERAGE

Country	Year when passed	Coverage
Austria <sup>1 2</sup> .....	1927	Workers in industry and commerce, including domestic workers, except casual domestics. Special schemes for agricultural workers, salaried employees, and miners.
Belgium <sup>2</sup> .....	1924	All wage earners, including agricultural workers and domestics (except casual domestics); and independent workers with incomes below 18,000 francs a year. Special schemes for salaried employees and miners.
Bulgaria <sup>1 2</sup> .....	1924	Employed persons, including agricultural workers and domestics. Special scheme for public officials.
Chile <sup>1</sup> .....	1924	Wage earners under 65 earning less than 8,000 pesos a year; independent workers with annual incomes below 8,000 pesos a year.
Czechoslovakia <sup>1 2</sup> .....	1924	Employed workers over school age and under 60, including agricultural, domestic, and home workers. Special schemes for salaried employees, miners, state employees, employees of statutory corporations, such as railways. Special act for independent workers, passed in 1925, not yet enforced.
France <sup>1 2</sup> (see also sec. C). .....	1910	All employed persons under 60 whose annual earnings do not exceed 18,000 francs a year in cities with over 200,000 inhabitants or industrial areas, 15,000 francs elsewhere. (Income limit raised by 2,000 francs in respect of each child.) Persons employed in agriculture subject to insurance against old age and death only. Special scheme for miners.
Germany <sup>1 2</sup> .....	1889	All workers, including agricultural, domestic, and home workers. Special scheme for salaried employees with annual earnings below 8,400 reichsmarks. Special scheme for miners.
Great Britain <sup>1 2</sup> (see also section C). .....	1925	All persons employed in industry and commerce. Salaried employees with incomes below £250 a year.
Greece <sup>1 2</sup> .....	1922	All persons employed in industry and commerce.
Hungary <sup>1 2</sup> .....	1928	All persons employed in specified employments. Employments may be added by Minister's order. Salaried employees with incomes below 6,000 pengo a year. Special scheme for miners.
Italy <sup>1</sup> .....	1919	All employed persons, including agricultural and domestic workers. Salaried employees with incomes below 800 lire a month.
Luxemburg <sup>1 2</sup> .....	1911	Workers in industry and commerce. Special scheme for salaried employees in industry and commerce.
Netherlands <sup>1 2</sup> .....	1913	All employed persons, including agricultural and domestic workers, whose annual remuneration does not exceed 2,000 florins. Insured persons whose remuneration rises above 2,000 florins remain liable to insurance. If their remuneration has been above 3,000 florins for some time, they are exempted at their request. Special schemes for railway workers and miners.
Poland <sup>1 2</sup> .....	1933	All workers in commerce and industry. Insurable wage limit.
Portugal <sup>1</sup> .....	1919	All employed persons over 15 years earning less than 900 escudos annually.
Rumania <sup>1</sup> .....	1912	All persons employed in industry and commerce, and craftsmen. Special scheme for miners in Ardeal, which includes survivors' insurance.
Spain.....	1919	All employed persons whose annual earnings do not exceed 4,000 pesetas. Domestic servants excluded.
Sweden <sup>1</sup> .....	1913	All citizens between 16 and 66 years unless already guaranteed pension under army, navy, etc.
Union of Soviet Socialist Republics <sup>1 2</sup> .....	1922	All manual workers; engineers and skilled technical workers; navigating staff in civil aviation; various categories of salaried employees.
Yugoslavia <sup>1 2</sup> .....	1922	All wage earners except household casuals, farm labor, and sea fishermen. (Not yet enforced.)
	1924	All workers and other persons employed under mining act.
	1907	Salaried employees in Slovenia and Dalmatia who have reached age 18 and whose annual earnings are not less than 150 dinars.

<sup>1</sup> Old-age insurance combined with invalidity insurance.<sup>2</sup> Old-age insurance combined with survivors' insurance.

Source: Compiled from *Compulsory Pension Insurance*, International Labour Office, Studies and Reports, Series M, No. 10, Geneva, 1933; *Noncontributory Pensions*, International Labour Office, Studies and Reports, Series M, No. 9, Geneva, 1933; *Insuring the Essentials*, Barbara Nachtrieb Armstrong, 1932.



TABLE 16.—*Old-age insurance and pension legislation in foreign countries through 1933—Continued*

## B. COMPULSORY CONTRIBUTORY OLD-AGE INSURANCE LAWS OF LIMITED COVERAGE

Country	Year when passed	Coverage
Argentina <sup>1 2</sup> .....	1921	Public utility employees.
	1924	Bank staffs.
Brazil <sup>1 2</sup> .....	1923	Railway workers.
	1926	Dock workers.
	1931	Staffs of public utility undertakings.
Cuba <sup>1 2</sup> .....	1927	Seamen and harbor workers.
Ecuador <sup>1</sup> .....	1928	Staffs of banks.
Switzerland:		
Canton Glarus <sup>1</sup> .....	1916	Legal residents between ages 17 and 50.
Appenzell.....	1925	All legal residents between ages 18 and 64.
Basle Town <sup>2</sup> .....	1931	All persons between ages 20 and 65 who have been resident in the Canton for 2 years.
Uruguay <sup>1 2</sup> (see also section C).....	1919	Staffs of public utility undertakings.
	1925	Staffs of banks and stock exchange.

## C. NONCONTRIBUTORY OLD-AGE PENSION LAWS

Australia <sup>1</sup> .....	1908	All citizens with insufficient income, resident 20 years.
Canada.....	1927	All citizens with insufficient income; resident in Canada 20 years, in Province 5 years.
Denmark.....	1891	Citizens with insufficient means, resident 5 years.
France <sup>1</sup> (see also section A).....	1905	All citizens with insufficient means.
Great Britain (see also section A).....	1908	Citizens with insufficient means; 12 years' residence since age 50 for natural-born citizens; 20 years' residence in all for naturalized subjects.
Greenland.....	1926	All Greenlanders without subsistence income.
Iceland.....	1909	Citizens with insufficient means.
Irish Free State.....	1908	Citizens with insufficient means, resident 30 years.
Newfoundland.....	1911	All citizens with insufficient means.
New Zealand.....	1898	Citizens with insufficient means and 25 years' continuous residence.
Norway (will not go into effect until announced by Royal decree).....	1923	All citizens with insufficient income.
South Africa.....	1928	All citizens (of 5 years' standing) with 15 years' residence out of preceding 20 years; other persons with 25 years' residence out of preceding 30 years; insufficient income.
Uruguay <sup>1</sup> (see also section B.).....	1919	All persons with insufficient means. (For naturalized subjects or aliens 15 years' residence is required.)

<sup>1</sup> Old-age pension legislation combined with invalidity pension legislation.<sup>2</sup> Old-age insurance combined with survivors' insurance.

Country	Year when passed			Source of fund	Administrative responsibility
		Age	Citizenship		
Australia <sup>1</sup> .....	1908	Men 65, <sup>2</sup> Women 60. <sup>3</sup>	British subject except	Commonwealth.....	Federal Government
Canada. Effective in 8 provinces: Alberta, British Columbia, Manitoba, New Brunswick, Nova Scotia, Ontario, Prince Edward Island, Saskatchewan.	1927	70.....	British subject by (less	¾ dominion; ¼ province...	Shared by dominion and provinces.
Denmark.....	1891	65 <sup>4</sup> .....	Required.....1,008 678 378 ns.	7/12 state; 5/12 communes...	Shared by central government and localities.
France <sup>1 7</sup> .....	1907	70.....	do.....ying	State pays 240 francs on each pension; commune pays balance.	Do.
Great Britain <sup>7</sup> .....	1908	70.....	British subject pro-	State.....	Central government.
Greenland.....	1926	55.....	Required.....	District partly reimbursed by State.	-----
Iceland.....	1909	-----	-----n 200	Poll tax on all persons between 18 and 60 years.	-----
Irish Free State.....	1908	70.....	Not required.....d in ne.	State.....	Central government.
Newfoundland.....	1911	75 <sup>5</sup> .....	Not required.....	State.....	-----
New Zealand.....	1898	Men 65, <sup>6</sup> women 60. <sup>6</sup>	British subject.....d for ident	do.....	Central government.
Norway <sup>10</sup> .....	1923	70.....	Required.....ount	50 percent State; 50 percent commune.	-----
South Africa.....	1928	65.....	Not required.....per- col- rtion	State.....	Central government.
Uruguay <sup>1</sup> .....	1919	60.....	do.....ed in s.	A number of special national taxes.	Do

<sup>1</sup> Old-age pensions combined with punishment for dishonorable action.  
<sup>2</sup> Reduced by 5 years in case of inebriety.  
<sup>3</sup> Pension authority recovers amount of poor relief within 3 years of claiming.  
<sup>4</sup> If authority accepts transfer of home means and pensioner lives in it rent-free.  
<sup>5</sup> Reduced by 3 years in case of inebriety.  
<sup>6</sup> Pension is varied in accordance with application for pension is deferred by natives.



TABLE 17.—Principal provisions of foreign noncontributory old-age-pension laws through 1933

Country	Year when passed	Qualifications for recipients									Amount of pension	Source of fund	Administrative responsibility
		Age	Citizenship	Residence	Other qualifications	Disqualifications	Property limit	Annual-income limit	Property exemption	Annual-income exemption			
Australia <sup>1</sup>	1908	Men 65, <sup>2</sup> Women 60, <sup>3</sup>	British subject	20 years in union	a	A, B, C	£400	£88	£60. House in which pensioner resides.	£32 10 s.; benefits from friendly societies and trade unions; allowances from children; war pensions.	Maximum £45 10 s. a year. <sup>3</sup> Reduced by £1 for each £10 of property except exempt property.	Commonwealth	Federal Government
Canada. Effective in 8 provinces: Alberta, British Columbia, Manitoba, New Brunswick, Nova Scotia, Ontario, Prince Edward Island, Saskatchewan.	1927	70	British subject	20 years in union; 5 years in province.		B	Annual income of real property taken at 5 percent of its value; <sup>4</sup> income of personal property = government annuity purchasable with it.	\$365	See property limit	\$125	Maximum \$240 a year; <sup>3</sup> reduced by amount of pensioner's income (less exemption).	¾ dominion; ¼ province	Shared by dominion and provinces.
Denmark	1891	65 <sup>4</sup>	Required	5 years in state		D, E, F	Annual income of property taken at 4 percent of its value.	275 to 375 kr. (varying with locality) plus maximum pension applicable.	Annual income of property taken at 4 percent of its value.	100 to 200 kr. (varying with locality).	Married couple, maximum 600 to 1,008 kr. <sup>5</sup> ; single man, maximum 402 to 678 kr. <sup>6</sup> ; single woman, maximum 378 to 642 kroner; <sup>6</sup> adjusted to means.	7/12 state; 5/12 communes	Shared by central government and localities.
France <sup>1</sup>	1907	70	do	None		G	Income from capital equal to life annuity purchasable with it.	2,400 francs plus earnings of pensioner.	Income from capital equal to life annuity purchasable with it.	Earnings of pensioner, 400 francs from savings (600 francs if pensioner has raised 3 children to age 16).	Maximum 600 to 900 francs (varying with locality). <sup>3</sup>	State pays 240 francs on each pension; commune pays balance.	Do.
Great Britain <sup>1</sup>	1908	70	British subject	12 years since age 50 for natural-born citizens, 20 years in all for naturalized subjects.		E	Annual income from first £375 property (other than property personally enjoyed by pensioner) computed at 5 percent balance; at 10 percent.	£40 17s. 6d.	Income from £25 of property; £39 annual income derived from sources other than earnings; £28 6s. annual income derived from any source; furniture and personal effects; sickness benefit from friendly society or trade union.		Maximum 10s. a week; reduced in proportion to pensioner's income.	State	Central government.
Greenland	1926	65	Required		a		In necessitous circumstances				Amount fixed by district council	District partly reimbursed by State.	
Iceland	1909				a		In necessitous circumstances				Minimum 20 kr. a year; maximum 200 kr. a year.	Poll tax on all persons between 18 and 60 years.	
Irish Free State	1908	70	Not required	30 years in all; 6 years since age 50 for citizens, 16 years for others.		E	Annual income from first £375 property (other than property personally enjoyed by pensioner) computed at 5 percent; balance at 10 percent.	£39 6s.	Annual income from £25 of property; furniture and personal effects; sickness benefit from friendly society or trade union.	£15 12s. 6 d. annual income.	Maximum 10s. a week; reduced in proportion to pensioner's income.	State	Central government.
Newfoundland	1911	75 <sup>4</sup>	Not required	20 years in State			"In need"				\$50 a year.	State	
New Zealand	1899	Men 65, <sup>4</sup> women 60, <sup>3</sup>	British subject	25 years in State	a	A, C, D, E.	£400; annual income of property fixed at 10 percent for all property except exempt property (£50).	£80; married couple, £121.	£50. Funeral benefit from friendly society; house (including furniture and personal effects) in which pensioner lives provided ownership is transferred to pension authority.)	£39	Maximum £40 19s. a year; <sup>3</sup> reduced in proportion to means; increased for pensioners with 2 or more dependent children.	do	Central government.
Norway <sup>18</sup>	1923	70	Required		a		Inadequate income				Fixed so that 60 percent of amount will buy necessities of life.	60 percent State; 60 percent commune	
South Africa	1928	65	Not required	15 years out of 20 just before claiming for persons who have been British subjects for 5 years; 25 years out of 30 for others.		A, G, H	Annual income from any property owned and occupied by pensioner and from all other uninvested assets computed at 10 percent.	£54 for white persons; £38 for colored persons.	Annual income from property owned and occupied by pensioner and from other uninvested assets computed at 10 percent.	£24 for white persons; £18 for colored persons.	Maximum £30 a year for white persons; maximum £18 a year for colored persons; reduced in proportion to pensioner's means.	State	Central government.
Uruguay <sup>1</sup>	1919	60	do	None required for natural-born subjects; 16 years for naturalized subjects or aliens.		G	Property must be expressed in terms of annual income.	202 pesos a year	Property must be expressed in terms of annual income.	10 pesos	Maximum 96 pesos a year; reduced in proportion to pensioner's means.	A number of special national taxes.	Do

<sup>1</sup> Old-age pensions combined with invalidity pensions.<sup>2</sup> Reduced by 5 years in case of incapacity for work.<sup>3</sup> Pension authority recovers amount of pension on death of pensioner or of survivor of married couple.<sup>4</sup> If authority accepts transfer of house in which pensioner resides, value is disregarded in assessing means and pensioner lives in it rent-free.<sup>5</sup> Reduced by 3 years in case of incapacity for work.<sup>6</sup> Pension is varied in accordance with locality in which pensioner lives and is increased if sending in of application for pension is deferred beyond age 65.<sup>7</sup> Noncontributory pensions being replaced by contributory pensions.<sup>8</sup> As for widow of beneficiary.<sup>9</sup> Reduced by 5 years for claimants having 2 or more dependent children under 15.<sup>10</sup> Will not go into effect until announced by royal decree.<sup>11</sup> Good character.<sup>12</sup> Persons of non-European extraction.<sup>13</sup> A. Aboriginal natives living under tribal conditions.<sup>14</sup> C. Desertion of spouse.<sup>15</sup> Imprisonment for dishonorable action.<sup>16</sup> Habitual drunkenness.<sup>17</sup> Receipt of poor relief within 3 years of claiming.<sup>18</sup> Relatives liable and able to support.<sup>19</sup> H. Aboriginal natives.Source: Compiled from *Noncontributory Pensions*, International Labour Office Studies and Reports, Series M, No. 9, Geneva, 1933; *Insuring the Essentials*, Barbara Nachtrieb Armstrong, 1932.

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TABLE 18.—*Estimated number of families and children receiving mothers' aid and estimated expenditures for this purpose*

[Based on figures available Nov. 15, 1934]

State	Number of families receiving mothers' aid	Number of children benefiting from mothers' aid	Estimated present annual expenditures for mothers' aid, local and State		
			Total	Local	State
Total.....	109,036	280,565	<sup>1</sup> \$37,487,479	<sup>1</sup> \$31,621,957	<sup>1</sup> \$5,865,522
Alabama <sup>1</sup> .....	.....	.....	.....	.....	.....
Arizona.....	106	379	20,940	.....	20,940
Arkansas <sup>2</sup> .....	.....	.....	.....	.....	.....
California.....	7,056	17,642	2,133,999	224,252	1,909,747
Colorado.....	552	<sup>4</sup> 1,435	149,688	149,688	.....
Connecticut.....	1,271	3,276	734,627	489,752	244,875
Delaware.....	348	855	93,000	46,500	46,500
District of Columbia.....	209	720	143,997	143,997	.....
Florida.....	2,564	6,164	222,286	222,286	.....
Georgia <sup>3</sup> .....	.....	.....	.....	.....	.....
Idaho <sup>4</sup> .....	230	619	36,315	36,315	.....
Illinois.....	6,217	14,802	1,837,012	1,533,217	303,795
Indiana.....	1,332	3,856	352,224	352,224	.....
Iowa.....	3,527	<sup>4</sup> 9,170	719,772	719,772	.....
Kansas.....	768	<sup>4</sup> 1,997	75,721	75,721	.....
Kentucky.....	137	<sup>4</sup> 356	62,889	62,889	.....
Louisiana.....	88	<sup>4</sup> 229	9,312	9,312	.....
Maine.....	817	<sup>4</sup> 2,124	310,000	155,000	155,000
Maryland.....	267	<sup>4</sup> 694	117,459	117,459	.....
Massachusetts.....	3,939	11,817	2,450,000	1,400,000	1,050,000
Michigan.....	6,938	<sup>4</sup> 18,039	2,448,962	2,448,962	.....
Minnesota.....	3,597	9,152	1,138,176	1,138,176	.....
Mississippi <sup>5</sup> .....	.....	.....	.....	.....	.....
Missouri.....	336	<sup>4</sup> 874	93,440	93,440	.....
Montana <sup>6</sup> .....	839	1,969	213,623	213,623	.....
Nebraska.....	1,654	<sup>4</sup> 4,300	272,036	272,036	.....
Nevada <sup>6</sup> .....	200	<sup>4</sup> 520	44,035	44,035	.....
New Hampshire.....	260	761	\$82,440	.....	\$82,440
New Jersey.....	7,711	18,789	2,445,564	\$2,445,564	.....
New Mexico <sup>6</sup> .....	.....	.....	.....	.....	.....
New York.....	23,493	56,524	11,731,176	11,731,176	.....
North Carolina.....	314	947	58,706	29,353	29,353
North Dakota <sup>6</sup> .....	978	2,644	238,314	238,314	.....
Ohio.....	8,923	24,470	2,116,908	2,116,908	.....
Oklahoma <sup>6</sup> .....	1,896	5,166	123,314	123,314	.....
Oregon.....	1,040	2,259	247,140	247,140	.....
Pennsylvania.....	7,700	22,587	2,197,640	1,598,820	1,598,820
Rhode Island.....	513	1,666	267,252	133,626	133,626
South Carolina <sup>1</sup> .....	.....	.....	.....	.....	.....
South Dakota <sup>6</sup> .....	1,290	3,324	285,986	285,986	.....
Tennessee.....	241	<sup>4</sup> 627	71,328	71,328	.....
Texas.....	332	<sup>4</sup> 863	43,987	43,987	.....
Utah.....	622	<sup>4</sup> 1,617	78,651	78,651	.....
Vermont.....	206	461	46,976	23,488	23,488
Virginia.....	136	545	33,976	16,938	16,938
Washington <sup>6</sup> .....	3,013	<sup>4</sup> 7,834	519,538	519,538	.....
West Virginia.....	108	<sup>4</sup> 281	16,086	16,086	.....
Wisconsin.....	7,173	17,932	2,180,790	1,930,790	250,000
Wyoming <sup>6</sup> .....	95	279	22,294	22,294	.....

<sup>1</sup> Includes revised figures for Illinois.<sup>2</sup> No mothers' aid law.<sup>3</sup> Mothers' aid discontinued.<sup>4</sup> Estimated on basis of 2.6 children per family, the average rate for 20 States reporting in December 1933.<sup>5</sup> Estimated on basis of trends in comparable States from which reports have been received.<sup>6</sup> Law not in operation.

Source: The U. S. Children's Bureau.

TABLE 19.—Funds for State maternal and child-health work

State	1928			1934	Percent increase 1934 over 1928	Percent decrease 1934 under 1928
	Total funds	Federal	State			
Delaware.....	\$18,008.02	\$11,504.01	\$6,504.01	\$33,000.00	83.3	.....
Pennsylvania.....	132,621.98	68,810.99	63,810.99	197,539.00	48.9	.....
Maine.....	25,000.00	15,000.00	10,000.00	26,300.00	5.2	.....
Massachusetts.....	78,275.00	.....	78,275.00	80,850.00	3.3	.....
New Hampshire.....	20,876.62	12,988.31	7,988.31	21,620.50	3.1	.....
Rhode Island.....	24,276.28	14,076.28	10,200.00	24,065.00	.....	0.6
Illinois.....	70,000.00	.....	70,000.00	69,070.00	.....	1.3
Connecticut.....	132,760.00	.....	32,760.00	29,392.00	.....	10.3
New Jersey.....	118,163.55	31,284.55	86,879.00	103,872.52	.....	12.1
Wisconsin.....	50,752.00	27,751.62	23,000.38	43,350.00	.....	14.6
Maryland.....	33,554.00	19,277.00	14,277.00	25,844.00	.....	20.0
Minnesota.....	47,000.00	26,099.65	20,900.35	36,000.00	.....	23.4
South Dakota.....	7,500.00	7,500.00	.....	5,000.00	.....	33.3
Arizona.....	19,507.42	12,253.71	7,253.71	12,890.00	.....	33.9
New York.....	210,041.78	80,041.78	130,000.00	134,500.00	.....	36.0
Virginia.....	75,574.00	25,574.00	50,000.00	40,372.00	.....	46.6
Kentucky.....	47,597.48	26,298.64	21,298.84	25,200.00	.....	46.6
Michigan.....	164,741.11	34,741.11	30,000.00	31,940.00	.....	47.1
Missouri.....	49,186.81	24,186.81	25,000.00	23,799.00	.....	50.7
Texas.....	77,902.52	41,450.52	36,452.00	34,840.00	.....	51.6
Montana.....	24,400.00	13,700.00	10,700.00	10,500.00	.....	55.3
Georgia.....	64,438.89	35,451.10	28,987.79	26,000.00	.....	57.0
North Dakota.....	8,000.00	6,500.00	1,500.00	3,056.00	.....	59.7
North Carolina.....	49,519.66	27,259.56	22,260.00	18,500.00	.....	61.8
Washington.....	8,387.00	5,000.00	3,387.00	3,000.00	.....	62.6
Mississippi.....	49,076.58	22,076.58	27,000.00	15,150.00	.....	64.2
Wyoming.....	110,000.00	7,500.00	2,500.00	2,500.00	.....	69.1
Louisiana.....	30,042.00	7,521.00	22,521.00	7,000.00	.....	75.0
Kansas.....	35,000.00	20,000.00	15,000.00	8,000.00	.....	76.7
West Virginia.....	40,443.48	19,571.74	20,871.74	9,140.00	.....	77.1
Hawaii.....	18,451.92	11,725.96	6,725.96	4,100.00	.....	77.4
California.....	157,580.00	31,290.00	26,290.00	12,225.00	.....	77.8
Florida.....	37,906.00	16,531.72	21,374.28	7,330.00	.....	78.8
Ohio.....	53,334.00	23,585.57	29,748.43	10,048.00	.....	80.7
Oregon.....	27,533.46	15,283.46	12,250.00	4,701.00	.....	81.2
Iowa.....	42,298.91	21,085.31	21,213.60	6,600.00	.....	82.9
Idaho.....	12,500.00	7,500.00	5,000.00	1,430.00	.....	84.4
South Carolina.....	37,711.30	21,355.65	16,355.65	2,046.00	.....	88.6
Tennessee.....	55,767.00	25,767.00	30,000.00	2,912.00	.....	94.6
Alabama.....	64,173.90	25,836.95	38,336.95	2,520.00	.....	94.8
Arkansas.....	38,635.02	21,817.51	16,817.51	.....	.....	96.1
Colorado.....	15,000.00	10,000.00	5,000.00	.....	.....	.....
Indiana.....	53,897.00	31,927.00	21,970.00	.....	.....	.....
Nebraska.....	17,000.00	11,000.00	6,000.00	.....	.....	.....
Nevada.....	16,044.00	10,522.00	5,522.00	.....	.....	.....
New Mexico.....	19,860.66	12,430.33	7,430.33	.....	.....	.....
Oklahoma.....	42,358.96	23,679.48	18,679.48	.....	.....	.....
Utah.....	20,500.00	12,500.00	8,000.00	.....	.....	.....
Vermont.....	5,000.00	5,000.00	.....	.....	.....	.....

<sup>1</sup> For four States (California, Connecticut, Michigan, and Wyoming), 1929 figures are given.

Source: The U. S. Children's Bureau.

TABLE 20.—General economic statistics

## INDICES OF BUSINESS CONDITIONS\*

[1923-25=100]

	1929	1932	1934 (first 10 months)
1. Index of industrial production <sup>1</sup> .....	119	64	80
2. Index of factory pay rolls <sup>1</sup> .....	108	45	62
3. Index of factory employment <sup>1</sup> .....	101	62	79
4. Index of freight car-loadings <sup>1</sup> .....	106	56	63
5. Index of department store sales (value) <sup>1</sup> .....	111	69	68
6. Index of construction contracts awarded (value) <sup>1</sup> .....	117	28	38
7. Index of exports (value) <sup>1</sup> .....	115	35	48
8. Index of bank debits outside New York City.....	140	65	69

\* *Survey of Current Business*, February 1934, p. 3, and December 1934, p. 3.

<sup>1</sup> Unadjusted for seasonal variation; adjusted for number of working days.

<sup>2</sup> Unadjusted for seasonal variation.

<sup>3</sup> Adjusted for seasonal variation.

TABLE 20.—General economic statistics—Continued

OTHER ECONOMIC DATA		
9. Number of gainful workers, September.....	1934.....	50, 277, 000
Estimate of Committee on Economic Security.		
10. Per capita full-time income, wage, and salaried employees.....	1929.....	\$1, 475
	1932.....	\$1, 199
<i>National Income, 1929-32</i> , Letter from Acting Secretary of Commerce, S. Doc. 124, 73d Cong., 2d sess., p. 19.		
11. Average weekly factory earnings per wage earner.....	1929.....	\$28. 54
	1932.....	\$17. 10
	1934.....	\$20. 08
<i>Survey Current Business</i> , February 1934, p. 7, and December 1934, p. 7. Data for 1934 for first 10 months.		
12. Index of cost of living (1913=100).....	December 1929.....	171
	December 1932.....	132
	June 1934.....	186
<i>Monthly Labor Review</i> , August 1934, p. 526.		
OLD-AGE DATA		
13. Population, 1930.....	60 years of age and over.....	10, 385, 026
	65 years of age and over.....	6, 633, 805
	70 years of age and over.....	3, 863, 200
Fifteenth Census of the U. S., 1930, vol. II, <i>Population</i> , p. 576.		
14. Number of old-age pensioners.....	1931.....	76, 339
	1934.....	180, 003
Data for 1931 from <i>Monthly Labor Review</i> , June 1932, p. 1261. Data for 1934 compiled by Committee on Economic Security from latest available information.		
15. Amount paid in old-age pensions.....	1931.....	\$16, 173, 207
	1934.....	31, 192, 492
Data for 1931 from <i>Monthly Labor Review</i> , June 1932, p. 1261. Data for 1934 compiled by Committee on Economic Security from latest available information.		
NATIONAL INCOME STATISTICS		
16. National income paid out.....	1929.....	\$82, 300, 000, 000
	1933.....	46, 800, 000, 000
<i>The National Income, 1933</i> , release Jan. 14, 1935, p. 6, Department of Commerce.		
17. National income paid out.....	1933.....	\$46, 800, 000, 000
Wages and salaries.....		29, 300, 000, 000
Dividends and interest.....		7, 300, 000, 000
Net rents and royalties.....		2, 300, 000, 000
Entrepreneurial withdrawals.....		7, 900, 000, 000
<i>The National Income, 1933</i> , release Jan. 14, 1935, p. 6, Department of Commerce.		
18. National income paid out.....	1932.....	\$48, 894, 000, 000
Business savings or losses.....		9, 529, 000, 000
Income produced.....		39, 365, 000, 000
<i>National Income, 1929-32</i> , letter from Acting Secretary of Commerce, S. Doc. 124, 73d Cong., 2d sess., p. 10.		
WHOLESALE, RETAIL, AND MANUFACTURING SALES		
19. Net wholesale sales.....	1929.....	\$68, 950, 108, 000
	1933.....	32, 030, 504, 000
<i>Final United States Summary of Wholesale Trade in 1933</i> , Department of Commerce, Bureau of the Census, p. 7. The 1929 figures have been revised.		
20. Net retail sales.....	1929.....	\$49, 114, 653, 000
	1933.....	25, 037, 225, 000
<i>United States Summary of the Retail Census for 1933</i> , Department of Commerce, Bureau of the Census, p. 3.		
21. Gross value of manufactured products.....	1929.....	\$69, 960, 909, 712
	1933.....	31, 358, 840, 392
<i>Census of Manufactures: 1933</i> , Department of Commerce, Bureau of the Census, p. i. The 1929 figures have been revised.		
LIFE-INSURANCE STATISTICS		
22. Aggregate life insurance in force.....	1933.....	\$97, 985, 043, 747
Ordinary.....		71, 918, 829, 182
Industrial.....		17, 154, 472, 848
Group.....		8, 911, 741, 717
Spectator Co., <i>Year-Book—Life Insurance</i> , 1934.		
23. Average size of life-insurance policy in force, 1933:		
Ordinary.....		\$2, 252
Industrial.....		210
Computed from Spectator Co. <i>Year-Book—Life Insurance</i> , 1934.		
24. Surrendered policies and loans, life insurance.....	1933.....	\$4, 394, 948, 987
Spectator Co., <i>Year-Book—Life Insurance</i> , 1934. Also letter from Spectator Co.		



TABLE 20.—*General economic statistics—Continued*

## SAVINGS ESTIMATES

25. Annual savings through life insurance.....	1933..	\$2, 950, 465, 899
New premium payments.....		234, 954, 196
Renewal premium payments.....		2, 715, 511, 703
Spectator Co., <i>Year-Book—Life Insurance</i> , 1934.		
26. Savings and other time deposits.....	1929..	\$28, 218, 000, 000
	1932..	24, 281, 000, 000
Data for all reporting banks in United States.		
<i>Statistical Abstract of the United States</i> , 1933, p 242, table 252.		







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REPORT OF THE COMMITTEE ON ECONOMIC SECURITY

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M E S S A G E

FROM

THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

A REPORT OF THE COMMITTEE ON ECONOMIC SECURITY

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JANUARY 16, 1939.—Referred to the Committee on Ways and Means and ordered to be printed

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*To the Congress of the United States:*

Four years ago I sent to the newly convened Congress a message transmitting a report of the Committee on Economic Security. In that message I urged that Congress consider the enactment into law of the program of protection for our people outlined in that report. The Congress acted upon that recommendation and today we have the Social Security Act in effect throughout the length and breadth of our country.

This act has amply proved its essential soundness.

More than 2½ million needy old people, needy blind persons, and dependent children are now receiving systematic and humane assistance to the extent of a half billion dollars a year.

Three and a half million unemployed persons have received out-of-work benefits amounting to \$400,000,000 during the last year.

A Federal old-age insurance system, the largest undertaking of its kind ever attempted, has been organized and under it there have been set up individual accounts covering 42,500,000 persons who may be likened to the policyholders of a private insurance company.

In addition there are the splendid accomplishments in the field of public health, vocational rehabilitation, maternal and child welfare, and related services, made possible by the Social Security Act.

We have a right to be proud of the progress we have made in the short time the Social Security Act has been in operation. However, we would be derelict in our responsibility if we did not take advantage of the experience we have accumulated to strengthen and extend its provisions.



I submit for your consideration a report of the Social Security Board, which, at my direction and in accordance with the congressional mandate contained in the Social Security Act itself, has been assembling data, and developing ways and means of improving the operation of the Social Security Act.

I particularly call attention to the desirability of affording greater old-age security. The report suggests a twofold approach which I believe to be sound. One way is to begin the payment of monthly old age-insurance benefits sooner, and to liberalize the benefits to be paid in the early years. The other way is to make proportionately larger Federal grants-in-aid to those States with limited fiscal capacities, so that they may provide more adequate assistance to those in need. This result can and should be accomplished in such a way as to involve little, if any, additional cost to the Federal Government. Such a method embodies a principle that may well be applied to other Federal grants-in-aid.

I also call attention to the desirability of affording greater protection to dependent children. Here again the report suggests a two-fold approach which I believe to be sound. One way is to extend our Federal old-age insurance system so as to provide regular monthly benefits not only to the aged but also to the dependent children of workers dying before reaching retirement age. The other way is to liberalize the Federal grants-in-aid to the States to help finance assistance to dependent children.

As regards both the Federal old-age-insurance system and the Federal-State unemployment compensation system, equity and sound social policy require that the benefits be extended to all of our people as rapidly as administrative experience and public understanding permit. Such an extension is particularly important in the case of the Federal old-age-insurance system. Even without amendment the old-age-insurance benefits payable in the early years are very liberal in comparison with the taxes paid. This is necessarily so in order that these benefits may accomplish their purpose of forestalling dependency. But this very fact creates the necessity of extending this protection to as large a proportion as possible of our employed population in order to avoid unfair discrimination.

Much of the success of the Social Security Act is due to the fact that all of the programs contained in this act (with one necessary exception) are administered by the States themselves, but coordinated and partially financed by the Federal Government. This method has given us flexible administration, and has enabled us to put these programs into operation quickly. However, in some States incompetent and politically dominated personnel has been distinctly harmful. Therefore, I recommend that the States be required, as a condition for the receipt of Federal funds, to establish and maintain a merit system for the selection of personnel. Such a requirement would represent a protection to the States and citizens thereof rather than an encroachment by the Federal Government, since it would automatically promote efficiency and eliminate the necessity for minute Federal scrutiny of State operations.

I cannot too strongly urge the wisdom of building upon the principles contained in the present Social Security Act in affording greater

protection to our people, rather than turning to untried and demonstrably unsound panaceas. As I stated in my message 4 years ago:

It is overwhelmingly important to avoid any danger of permanently discrediting the sound and necessary policy of Federal legislation for economic security by attempting to apply it on too ambitious a scale before actual experience has provided guidance for the permanently safe direction of such efforts. The place of such a fundamental in our future civilization is too precious to be jeopardized now by extravagant action.

We shall make the most orderly progress if we look upon social security as a development toward a goal rather than a finished product. We shall make the most lasting progress if we recognize that social security can furnish only a base upon which each one of our citizens may build his individual security through his own individual efforts.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE,  
*January 16, 1939.*

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SOCIAL SECURITY BOARD

ARTHUR J. ALTMAYER, *Chairman*

ELLEN S. WOODWARD

GEORGE E. BIGG

WASHINGTON, D. C., *December 30, 1938.*

The PRESIDENT,  
*The White House.*

DEAR MR. PRESIDENT: The Social Security Board has regarded as one of its most important responsibilities under the Social Security Act that imposed by the section of the law which charges the Board with "the duty of studying and making recommendations as to the most effective methods of providing economic security through social insurance, and as to legislation and matters of administrative policy concerning old-age pensions, unemployment compensation, accident compensation, and related subjects."

In accordance with this congressional mandate and specific instructions received from you, the Board, since its creation in August 1935, has continuously appraised the operation of those provisions of the act for which it has administrative responsibility. In addition, the Board has carried on extensive studies as to effective methods of providing greater social security for the American people.

The Social Security Board's report, based on these studies and on practical experience in social security administration during the past 3 years, is submitted herewith for your consideration and that of the Congress.

The Board has not undertaken to include in this report the extensive data on which its recommendations are based. However, the Board is prepared to furnish such data and technical assistance as may be desired in connection with any of these recommendations which the Congress may wish to consider.

Respectfully submitted.

ARTHUR J. ALTMAYER, *Chairman.*

## PROPOSED CHANGES IN THE SOCIAL SECURITY ACT

Through the Social Security Act the people of the United States have established their first Nation-wide and organized system of protection against prevailing economic hazards. To accomplish this purpose, both the Federal Government and the States have cooperated in these provisions for social security. It has been possible, therefore, to attack Nation-wide problems on a Nation-wide front, and, at the same time, to keep the program practical, flexible, and close to the people.

Possible ways and means of improving and extending the present provisions of the Social Security Act naturally become more apparent as administrative experience increases, as more data become available, and as a better understanding of actual needs develops. Through the Board recognizes that such growth is a continuing essential, it believes that the general approach to social security embodied in the existing act is fundamentally sound.

Through the Social Security Act the people of this country have attacked the problem of insecurity upon two fronts: The act undertakes to provide some measure of protection against present needs arising out of past neglect, and it establishes at the present time basic protection against economic hazards which would otherwise cause future insecurity. To accomplish these purposes the act sets up, in the main, a system of Federal-State cooperation whereby financial resources of the Federal Government are made available to the States to enable them to safeguard their citizens. The only part of the act wholly administered by the Federal Government is the old-age insurance system. Since such a system necessarily operates on a long-term basis, movement of population among the States precludes setting it up on a State-by-State basis.

The changes in the Social Security Act recommended by the Board are designed to promote the objectives of the present law, as regards all the programs under the Board's direction—old-age insurance, unemployment compensation, and public assistance. In addition, the Board makes certain recommendations with regard to general administration and suggests certain considerations relating to health protection. It is the judgment of the Board that these recommended changes represent practicable next steps toward the goal of adequate security for the American people by liberalizing the benefits payable under the act, by extending its protection to a much larger proportion of our people, and by greatly facilitating administration.

## FEDERAL OLD-AGE INSURANCE

Although the Federal old-age insurance system is the largest ever put into operation, it has proved to be sound from both the administrative and financial standpoint. In considering the development of this plan, it should be borne in mind that it is separate and distinct from the Federal-State program of old-age assistance. Under Federal old-age insurance, benefits are payable as a matter of right irrespective of individual need, and in relation to past earnings. Under Federal-State old-age assistance, payments are made only on the basis of individual need as determined by the State.

Our present system of old-age security thus embodies two principles: the insurance program related to the individual's past earnings and the



assistance program related to his present need. The Social Security Board is convinced that a system of old-age security which attempted to operate on any other principles would be bound to lead to disaster both for the beneficiaries and for the general taxpayer.

The basic problem of old-age insurance is to make the system more immediately and fully operative without destroying the reasonable relationship which must exist in such a program between benefits payable and past earnings. Such a relationship must exist under any system of retirement insurance, whether social insurance or an industrial pension plan, unless the term "insurance" is to lose all its meaning. For the protection of future beneficiaries and future taxpayers it is essential that this reasonable relationship be maintained; just as in the case of old-age assistance it is necessary to maintain a reasonable relationship between assistance granted and the needs of the individual.

The present old-age insurance system, while maintaining a reasonable relationship between past earnings and future benefits, provides proportionately greater protection for the low-wage earner and the short-time wage earner than for those more favorably situated. In other words, it recognizes *presumptive* need as an essential consideration in any socially adequate old-age insurance system. But the presumptive need toward which social insurance is directed must be distinguished from the specific need, as established by investigation, which public assistance is designed to meet. To allow for presumptive need, the old-age insurance system gives much greater weight to the first \$3,000 of accumulated earnings than to subsequent earnings. It is thus possible for a person retiring in the early years of the system, or for a low-wage earner retiring at any time, to receive very liberal benefits in proportion to his past earnings.

But every worker, regardless of his level of earnings or of the length of time during which he has contributed, will receive more by way of protection than he could have purchased elsewhere at a cost equal to his own contributions. In other words, the system recognizes the principle of individual equity, as well as the principle of social adequacy. It has been possible to incorporate in the system both these aspects of security by utilizing a larger proportion of employers' contributions to pay benefits to those retiring in the early years, and to low-wage earners. A similar procedure is also followed in private pension plans. Such plans recognize that the employer must contribute more liberally in behalf of older workers if they are to have sufficient income to retire.

#### BENEFITS

*Starting monthly benefits in 1940.*—The Board believes that the payment of monthly benefits should commence in 1940 instead of on January 1, 1942, as scheduled in the present law. This will be practicable, in the opinion of the Board, since by 1940 a considerable body of administrative experience will have been accumulated, and wage records will have been built up for a period of 3 years.

Because of its nature as an *insurance* program, the Social Security Board does not believe that it is possible to bring under this system all persons who have already retired from gainful employment. Even though it were considered reasonable to pay benefits regardless of the fact that no past contributions had been made either by these indi-



viduals or by their employers, it would be impossible to obtain adequate wage records upon which to compute benefits.

*Increasing benefits payable in early years.*—The Board also believes that the monthly benefits payable to those retiring in the early years can be increased without increasing the eventual cost of the program.

The cost of any system of benefits will mount rapidly with the passage of time as a larger proportion of the population reaches retirement age. Consequently, a scale of benefits, the cost of which would be altogether reasonable now, might be unduly burdensome at the end of a generation. Therefore, in making increases in benefits, particularly in the early years of a system, it is essential to keep the ultimate financial cost in mind. It is impossible under any social insurance system to provide ideal security for every individual. The practical objective is to pay benefits that provide a minimum degree of social security—as a basis upon which the worker, through his own efforts, will have a better chance to provide adequately for his individual security.

In order to increase benefits for those retiring in the early years the Board recommends two measures: first, supplementary benefits for aged wives, and second, the use of "average wages" instead of total accumulated wages for the computation of benefits.

*Supplementary benefits for aged wives.*—The Board suggests that a supplementary benefit be paid for the aged dependent wife of the retired worker which would be related to his old-age benefit. Such a plan would take account of greater presumptive need of the married couple without requiring investigation of individual need. An aged wife would of course be entitled to benefits based upon her own past earnings in lieu of the supplement, if her own benefits were greater. Since in the course of time many women will have developed substantial benefit rights based upon their own past earnings, the cost of providing the supplement for dependent wives would gradually decline, and eventually the additional cost would be reduced to a relatively small amount. In order that greater social adequacy may not be achieved at the expense of individual equity, the Board recommends that the benefits payable to unmarried persons continue to be at least as much as they could purchase from a commercial insurance company with their own contributions.

*Utilizing "Average wages" as benefit base.*—The Board recommends that benefits be calculated upon the basis of average wages, rather than, as at present, upon total accumulated wages.

This change would make it possible to increase early benefits and to relate benefits more closely to the previous normal wage income of the individual. It would also eliminate, as the years go by, the large bonus which present provisions would afford those who have had only a brief period of participation prior to the date of retirement. Under the existing law the large credit for the first \$3,000 of accumulated earnings remains in effect regardless of whether a worker retires in the early years of the system or later. This large credit is justified in the early years, since workers and their employers have had an opportunity to make contributions for only a short period of coverage under the system. But it is advisable to safeguard the system against disproportionately large withdrawals in the future in behalf of those who have paid taxes only a short time.

While the Board believes that benefits should be related to the average wage, it recognizes that benefits should also be related to

the number of years the individual has been in covered employment and has made contributions. The Board therefore recommends that an insured individual, upon retirement, receive a basic benefit related to his average wages; and that, for every year he has earned more than some small specified amount of wages in covered employment, his basic monthly benefit be increased by a specified percentage. Conversely it recommends that for every year a person does not earn this specified amount of wages, the basic monthly benefit be reduced by the same percentage.

The Board is of the opinion that a percentage decrease for each year not covered is a more equitable approach than that found in most foreign old-age insurance systems which usually require that a person be in covered employment during a specified number of years immediately preceding the date of retirement. As a result, an individual who had been in covered employment a considerable proportion of his working life but not during the last few years before retirement would be ineligible for monthly benefits. Such a provision would, in the Board's opinion, work undue hardship on those who had left covered employment during their later years and would offer undue advantages to those who entered covered employment only during their last few working years. The system which the Board recommends represents a more flexible and equitable arrangement. It not only protects individuals who have been in covered employment during a considerable portion of their working life, but also safeguards the system as it matures against disproportionate payments to those in covered employment for only a short time.

*Benefits for widows and orphans.*—The Board is of the opinion that old-age insurance should be expanded to include survivors' insurance. The law now provides for single lump-sum cash death payments equal to 3½ percent of the worker's total recorded wages provided he has not during his lifetime drawn benefits equal to this amount. Under a social insurance system the primary purpose should be to pay benefits in accordance with the presumptive needs of the beneficiaries, rather than to make payments to the estate of a deceased employee regardless of whether or not he leaves dependents. The payment of monthly benefits to widows and orphans, who are the two chief classes of dependent survivors, would furnish much more significant protection than does the payment of lump-sum benefits. Such monthly benefits could be provided and still kept within the eventual costs of the present system. There is ample precedent for such provision, since 15 out of 22 foreign old-age insurance systems, make provisions for survivors' benefits.

The Board is of the opinion that aged widows and younger widows with dependent children should receive benefits, and that benefits should be paid on behalf of children at least until they reach 16 years of age, and until 18 while they are regularly attending school.

Some measure of the need for this protection as it affects children is indicated by experience under the present Federal-State program of aid to dependent children. In 43 percent of these cases the children have become dependent because of the father's death and in an additional 25 percent of the cases, because of the father's disability.

The Board has given much consideration to the feasibility and desirability of providing benefits for widows under 65 years of age who have no young children in their care. The Board believes that only a temporary monthly benefit, covering the period immediately following

the husband's death, should be paid in such cases. However, the Board does recommend that all widows of persons who would have been qualified for old-age benefits, if they had lived to age 65, be entitled to a deferred monthly benefit payable at age 65. Such benefits should bear some reasonable relationship to that which the deceased husband would have received.

Normally, young widows without children can be expected to enter gainful employment, but middle-aged widows frequently find it more difficult to become self-supporting. On the other hand, they are likely to have more savings than younger widows and many of them have children who are grown and able to help them until they reach 65 years of age, when they would be entitled to a widow's benefit under the plan proposed. Though their problems are fully recognized, provision for commencing benefits to widows under 65 with no children would present certain serious anomalies. Any age selected for benefits to begin would appear arbitrary, excluding some widows just below that age. Moreover, the question would arise as to discrimination against unmarried women, who would not receive benefits until they reached 65. Yet if the retirement age for women generally were lowered, the effect would be to discriminate against men and at the same time substantially to increase the cost.

*Disability insurance.*—The Board has given much thought to the question of whether the present old-age insurance system should be expanded to include provision for benefits to workers who become permanently totally disabled, before reaching age 65, and to their dependents.

With the single exception of Spain, every other country which has a system of old-age insurance has made provision for permanent disability. One of these countries, Great Britain, includes this provision in its health insurance system; others relate it directly to old-age insurance.

The Board recognizes that the administrative problems involved are difficult, although it does not believe them insuperable. It also recognizes that provision for permanent total disability would increase the cost of the system both now and in the future. For these reasons it is not making any positive recommendation on this matter at this time. It should, however, be pointed out that the extent to which costs would increase would depend upon the definition of disability which could be made effective. If a fairly strict definition were adopted and maintained, the Board believes that the additional cost could be kept within reasonable limits. Later, as experience developed, the definition could be made more liberal if this appeared socially desirable. In connection with any permanent total disability program, adequate provision should be made for hospitalization and other institutional care, and for vocational rehabilitation.

#### COVERAGE

*Extending the coverage of the system.*—The Social Security Board is of the opinion that it is sound social policy to extend old-age insurance to as many of the Nation's workers as possible. It believes that it is administratively feasible to provide this protection for large numbers of people who are not yet covered.

Even with its present limited coverage—estimated to include at any one time only 50 percent of the Nation's gainfully occupied pop-



ulation—at least some small measure of protection is already being furnished by the old-age insurance program to two-thirds of those gainfully occupied. This is due to the fact that a great many persons, usually in excluded occupations, work in covered employment from time to time. It is estimated that, even without any change in the present coverage, 75 or 80 percent of the gainfully occupied persons in this country would eventually have some protection. However, since the adequacy of this protection depends to a considerable extent upon the length of time the individual actually works in covered employment, it is highly desirable that coverage be extended as rapidly as administratively feasible. Extension of coverage would also be necessary in order to protect the financial soundness of the system if the present benefit provisions in the law granting such proportionately large benefits to persons who have been in covered employment only a short period prior to retirement are retained.

*Agricultural labor.*—The Board believes that the “agricultural labor” limitation on coverage should be modified. It is, of course, apparent that the problem of covering the independent farmer cannot be finally solved, except as part of a general program to cover the self-employed. It is also recognized that the complete inclusion of employees engaged in agricultural labor is fraught with great administrative difficulties. However, the Board believes that the inclusion of large-scale farming operations, often of a semi-industrial character, probably would reduce rather than increase administrative difficulties.

At present it is almost impossible to delimit the field of “agricultural labor” with anything like the certainty required for administration and for general understanding by employers and employees affected. The extent of the exception is shadowy indeed where the producer also engages in processing and marketing.

The Board recommends that the language of the present exception relating to “agricultural labor” be modified to make it certain that this exception applies only to the services of a farmhand employed by a small farmer to do the ordinary work connected with his farm. The Board further recommends that, with a reasonable time allowed before the effective date, the “agricultural labor” exception be eliminated entirely.

*Domestic service.*—The Board recommends that the exception of domestic service be eliminated, with a reasonable time allowed before the effective date. It is believed that the principal administrative difficulties with respect to domestic service will be overcome, just as they will be in the case of agricultural labor, when the individuals affected become generally informed as to the benefits and obligations incident to coverage.

*Maritime employment.*—There is at present an exclusion of “service performed as an officer or member of the crew of a vessel documented under the laws of the United States or of any foreign country.” The legislative history indicates that this exclusion was made because of the administrative difficulties of covering foreign crews on American vessels engaged in foreign trade. The Board recommends that the present exception be redrawn so that exclusion of employment on American vessels be limited to this type of situation.

*Nonprofit organizations.*—The Board recommends the inclusion of service performed for religious, educational, charitable, and similar nonprofit organizations. The Board foresees no serious administrative difficulties in such inclusion.



*Services performed for the Federal Government or its instrumentalities.*—The Board recommends the inclusion of service performed in the employ of the United States or its instrumentalities. The Board anticipates no administrative difficulties in such inclusion. However, in extending old-age insurance to all employees of the Federal Government, it would be necessary to give consideration to the effect on other retirement systems for Federal employees, with a view either to excluding employees already covered by these systems or to adapting these systems so that they would take account of the basic protection afforded by the old-age insurance system. In any event, the Board recommends an amendment to bring under coverage employees of instrumentalities of the United States, except those which either are wholly owned by the United States or are exempt from the taxes levied under the Social Security Act by virtue of some other act of Congress. The principal "Federal instrumentalities" which would thus be brought into old-age insurance are national banks and State banks which are members of the Federal Reserve System, and building and loan associations which are members of the Federal Home Loan Bank System.

*Services performed for States and their instrumentalities.*—A number of State and municipal officials have indicated a desire for coverage of State and municipal employees. However, no method has yet been devised which would overcome constitutional difficulties and also protect the old-age insurance system against adverse selection. It is hoped that further study will develop a method which will be constitutional and which will prove mutually advantageous to the States, their employees, and the old-age insurance system. The Board confines its recommendation at this time to the suggestion that the present exclusion of the act be modified so that it applies only to services performed in the employ of a State or a political subdivision or instrumentalities wholly owned by the State or whose functions are such as to raise constitutional barriers to Federal taxation.

*Allowing benefit credits for wages earned after 65.*—The Social Security Act as it now stands does not permit workers to gain benefit credit for wages earned after age 65. The taxes paid by employer and employee also stop when the wage earner reaches this age. Lump-sum cash benefits are provided for workers who reach 65 years of age without having worked enough to qualify for a monthly benefit. Such workers, even though they continue in employment, cannot under the present law qualify for annuities. The lump-sum payment is all that is available to them. The Social Security Board recommends that such workers receive credit for any time that they work after age 65 so that they may qualify for monthly benefits upon retirement at a somewhat later date. This would automatically eliminate the occasion for lump-sum payments at age 65, and at the same time would provide a much greater degree of protection for older workers.

*Employer-employee relationship.*—Old-age insurance coverage is at present limited by the undefined terms "employer" and "employee." The Board recommends that this provision be expanded to the extent feasible to cover more of the persons who furnish primarily personal service. The intention of such an amendment would be to cover persons who are for all practical purposes employees, but whose present legal status may not be that of an employee. At present, for

example, insurance, real estate, and traveling salesmen are sometimes covered and sometimes not; the Board believes that all such individuals should be covered.

*Casual labor.*—The Board believes it is necessary to retain the existing exclusion of casual labor not in the course of the employer's trade or business, because of the administrative difficulties which otherwise would be involved, with no considerable compensating social advantages. It should be noted that this exclusion is numerically small since labor so excluded must be not only casual but also unrelated to the employer's business.

*Self-employment.*—The Board has given considerable study to the possibility of including self-employed persons under the old-age insurance system. However, the Board is not prepared at this time to recommend what it considers a practicable method for extending coverage to such persons.

*Contracting coverage to prevent collusion.*—Until a practicable means is found for including self-employed persons, the Board recommends that the family employment exclusion, appearing in title IX of the Social Security Act relating to unemployment compensation, be incorporated in the old-age insurance provisions. The Board further recommends that the act be amended so that old-age insurance benefits will not be paid where there has been a contract of employment for the purpose of securing benefits without the performance of bona fide service.

#### FINANCING

The Social Security Board is not making detailed recommendations relative to the financing of the old-age insurance system since the Treasury Department is charged with primary responsibility in this regard. However, the Board believes it is essential that any method of financing that is proposed should take into account all probable future disbursements so that the interests of both the prospective beneficiaries and the general taxpayers may be properly safeguarded.

When the system is fully matured, its eventual cost with the changes here recommended—which the Board believes will furnish far greater protection—would be somewhat less than the cost of the present system. The cost of paying benefits in the early years would, however, be greatly increased if the proposed changes were put into effect. If permanent total disability insurance should also be included, the eventual cost, when the system is fully matured, would be somewhat more than the present system.

The existing law contemplates a fully financed system for all time to come. That is to say, it requires that probable future liabilities be taken into account from the very beginning and that a sufficient reserve be set up so that the earnings on the reserve, plus current pay-roll tax receipts, will be sufficient always to cover annual benefit disbursements.

As already stated, if the recommendations of the Board relating to benefits are adopted, early payments under the system will increase substantially. The tax provisions embodied in the present law would probably cover the increased annual cost for the first 15 years. They would also probably provide a small reserve, which would be invested and earn some interest. But when future annual benefit disbursements exceeded annual tax collections, plus interest earnings, some other

provision would have to be made for the funds which, under the existing plan, would be secured from interest on accumulated reserves. It would then be necessary to do one of two things: increase the pay-roll tax, or provide for the deficiency out of other general taxes.

The Board is of the opinion that it would be sound public policy to pay part of the eventual cost of the benefits proposed out of taxes other than pay-roll taxes, preferably taxes such as income and inheritance taxes levied according to ability to pay.

The portion of the total costs to be met by taxes other than pay-roll taxes should depend upon the proportion of the general population covered by the insurance system. The wider the coverage, the more extensive this contribution from other tax sources might properly be.

Although the Board believes that contributions to the old-age insurance program should eventually be made out of Federal taxes other than those on pay rolls, it does not believe that such taxes should be substituted for any part of the pay-roll taxes provided in the present act or that such other taxes should be used until annual benefit disbursements begin to exceed annual pay-roll tax collections, plus the interest earned on the small reserve which would be accumulated. The Federal Government is already making an annual contribution out of general taxes of almost a quarter of a billion dollars for old-age security, in the form of grants to the States to help finance their old-age assistance programs. Substitution of other taxes for any portion of the pay-roll taxes now provided would increase the disparity between taxes paid and benefits payable in the early years of the system. Those retiring in the early years in any event will receive much greater benefits in proportion to taxes paid on their behalf than those retiring in the later years. Furthermore, while the exact future costs of benefits under the insurance system cannot be determined with any degree of accuracy until more data are available (especially those which will come with the actual payment of benefits to large numbers of people), it is certain that the costs will be great and it is important that Government finances should not suffer through reduction in revenue from pay-roll taxes.

#### ADMINISTRATIVE CHANGES

The Board recommends a number of changes to improve administration of the present law:

1. Inclusion of a provision requiring employers at the time of wage payment to furnish employees a statement, which they may retain, showing the amount of taxes deducted from their wages under the old-age insurance system.

2. Exclusion of any nominal wages paid to employees of all non-profit organizations now exempted from the Federal income tax. Many nonprofit organizations, particularly fraternal organizations, with employees and officers drawing a nominal wage, are now required to make reports and pay taxes for these employees, although the amount of the taxes and prospective benefits involved is negligible.

3. Exclusion from the definition of wages of all payments made by an employer to or on behalf of an employee under a plan or system providing for retirement benefits, dismissal wages, disability benefits, and medical and hospital expenses. The purpose of this proposal is to avoid discouraging plans of the nature described.



4. Simplification of the present provisions with respect to lump-sum payments on death (in case the substantive changes recommended by the Board are not made).

5. Provision that applications for death benefits must be filed within 2 years after date of death.

6. Simplification of the procedure for payment to infants or other legally incompetent persons.

7. Provision making more equitable the recovery by the Federal Government of incorrect payment to individuals.

8. Provision respecting the practice of attorneys and agents before the Board.

9. Provision that findings of fact and decisions of the Board in the allowance of claims shall be final and conclusive. Such a provision would follow the precedent of the World War Veterans' Act and of other legislation with respect to agencies similar to the Board which handle a large number of small claims.

10. Clarification of the law regarding services of an employee performing both excluded and included employment.

#### UNEMPLOYMENT COMPENSATION

The unemployment compensation and public assistance provisions of the Social Security Act constitute the most comprehensive attempt yet made to utilize a system of Federal-State cooperation for the solution of national problems. To promote State action in unemployment compensation the Federal law establishes a uniform tax payable by employers regardless of whether the State in which they operate has an unemployment compensation law; it then permits employers to offset their contributions under a State unemployment compensation law up to 90 percent of the total Federal tax. The act also provides that the Federal Government shall make grants to the States to cover the entire necessary cost of proper administration of their unemployment compensation laws.

The recommendations of the Social Security Board relative to unemployment compensation deal with extension of coverage, improvement of Federal-State relationships, and certain technical changes, rather than any fundamental change in the present Federal-State pattern now set forth in the Federal law. Though the adjustment of Federal-State relations is at best a difficult and delicate task, particularly in the field of social legislation, experience so far indicates a large measure of success. The present provisions of the Federal law have proved completely effective in facilitating the enactment of State unemployment compensation laws. These laws and the character of their administration have on the whole been reasonably satisfactory. The inevitable administrative difficulties involved in the inauguration of any large-scale undertaking were accentuated by the fact that in 22 States benefits became payable in January 1938, at a time of unexpectedly heavy unemployment. In spite of these difficulties, the 31 jurisdictions that had begun paying benefits by the end of 1938 have paid out about \$400,000,000 in benefits to approximately 3½ million unemployed workers. The most pressing problem in unemployment compensation at the present time is improvement and simplification of the State laws themselves and of their administration, on the basis of increasing experience.



## EMPLOYERS' TAX AND REPORTING PROCEDURES

The Board is aware of the suggestion made at the time the Social Security Act was under consideration, that the Federal Government should collect the entire Federal tax and make grants-in-aid to the States, instead of allowing an offset on the Federal tax. It was argued that such a method would relieve employers of the necessity of making tax reports to both the State and the Federal Government. It is true that this would be of some advantage, particularly to employers operating in more than one State. However, at present, the State unemployment compensation agencies need detailed information concerning the past working history of persons claiming benefits in order to determine the amount due them. If employers did not report directly to the State agencies, it would either be necessary for the Federal Government to furnish the State agencies the required information, or it would be necessary for the States to develop benefit procedures which would eliminate detailed reporting. Neither the Federal Government nor the States have had sufficient experience to warrant an opinion as to the feasibility of such a drastic change.

The Board, however, does recommend that the Federal unemployment compensation tax provisions be combined with those for old-age insurance which relate to employers. Such a combination would have the advantage of relieving employers from making two separate Federal tax returns. This arrangement would, of course, not affect the present offset provision or the present use of the proceeds of the two separate taxes.

## EXTENSION OF COVERAGE

Regardless of whether the two taxes are combined, the Board recommends that the coverage of unemployment compensation be made similar to the coverage already recommended for old-age insurance, with certain exceptions to be discussed later. Even though the tax provisions were not combined, there would be great advantages in making the provisions of the two programs identical with respect to employers affected by both. Such a change would make it possible to simplify employers' record-keeping and reporting to the Federal Government, as well as to the States, since the latter would undoubtedly adjust their State laws accordingly.

The suggested combination of the unemployment compensation tax provisions with the old-age insurance tax provisions or any broadening of Federal unemployment compensation provisions (with the exception of maritime employment) should not become effective before January 1, 1941, since it would be necessary to give the States ample opportunity to amend their laws accordingly. This would also give the State unemployment compensation agencies sufficient time to perfect their administrative organization and procedures.

In unemployment compensation as in old-age insurance, the Board believes that it is administratively feasible and in accordance with sound social policy to include the employments not covered by present Federal provisions, with a few exceptions.

The employments for which the Board does not recommend inclusion at this time are: ordinary farm labor, domestic service in private homes, family employment, and service for the Federal or State governments or their instrumentalities.

*Problems relating to agricultural employment.*—The situation of agricultural employees is frequently different from that in most other occupations. Farm employees often either own small farms of their own, or live in homes provided by the employer with the use of land and equipment to produce a part of their subsistence. While it seems feasible to cover such persons in old-age insurance, in unemployment compensation there are unusual problems. For example, in many cases it would be extremely difficult to determine whether the individual should be considered "unemployed," or whether he is normally working for himself. While some foreign systems have been extended to cover agricultural employees, it must be recognized that the agricultural wage-earning group in this country is much less clearly defined. It therefore appears inadvisable to recommend at this time the extension of unemployment insurance to cover all agricultural employees. However, just as in the case of old-age insurance, the Board recommends that the language of the present exception relating to "agricultural labor" in any event should be modified to make certain that this exception applies only to the services of a farmhand employed by a small farmer to do the ordinary work connected with his farm. The Board will continue to study the problems involved and will make every effort to develop practical ways and means of bringing about extension to all agricultural employees.

*Problems relating to domestic service.*—In the case of domestic service in a private home, the difficulties of extending unemployment compensation are far less serious than in agriculture. The fact of unemployment is much easier to determine. The chief problem here relates to the determination and collection of contributions. The Board believes domestic employees can and should be covered by the unemployment insurance provisions of the act, provided sufficient time is allowed for the States to perfect their administrative procedures.

*Problems relating to State and Federal employment.*—Employment by a State government or its instrumentalities must continue to be excluded from Federal unemployment compensation provisions for the reasons cited in connection with old-age insurance. The Board does not believe there would be any great advantage in including Federal employees under the unemployment compensation provisions. Civil-service employees are, for the most part, already protected against the hazard of unemployment, and it would probably be more practical to provide for non-civil-service employees through some form of dismissal wage rather than through establishing a special Nation-wide unemployment compensation system.

However, the Board does believe that so-called instrumentalities of the Federal Government which are not wholly owned by it—such as national banks—should be brought into State unemployment compensation as well as under old-age insurance.

*Nonprofit organizations.*—The Board recommends the inclusion of service performed in the employ of nonprofit organizations. The Board anticipates no serious administrative difficulties in such inclusion.

*Family employment.*—In order to avoid serious administrative difficulties in the payment of unemployment compensation benefits, the Board believes that the exclusion of family employment should be retained.

*Including employers of one or more employees.*—The Board recommends that the present Federal restriction to employers who have had 8 or more employees in 20 or more weeks during the year be eliminated so that the unemployment compensation provisions would cover all those having one or more employees, just as in the case of old-age insurance. Twenty-four State unemployment compensation laws already cover smaller employers than those included in the Federal act as it now stands; of these, 10 cover employers of one or more.

*Employer-employee relationship.*—The Board recommends that the changes to broaden and clarify these terms, already described in connection with old-age insurance, be also incorporated in the Federal provisions for unemployment compensation.

*General.*—The Board recommends that the Federal pay-roll tax in connection with unemployment compensation be limited to the first \$3,000 of annual wages, if that maximum is retained in the old-age insurance tax provisions. Though the Board recognizes that such a limitation would reduce revenue somewhat, it believes that this disadvantage would be counterbalanced by the advantages to be derived from making the Federal tax provisions identical for both programs.

If unemployment compensation coverage is extended to employers of one or more, the Board believes it will be necessary to exclude—for the same reason as in old-age insurance—casual labor not in the course of the employer's trade or business.

#### UNEMPLOYMENT COMPENSATION FOR SEAMEN

Under the Constitution it is impossible to confer upon the States jurisdiction over maritime employment, with the possible exception of that incidental to employment on land. Therefore, in order to afford unemployment compensation protection to seamen it would be necessary to pass a Federal act. The Board recommends that such an act be passed covering all maritime employment which cannot be brought under State laws, with the exceptions noted under old-age insurance.

#### STATE PERSONNEL

Under the present Federal law, before a grant to a State for unemployment compensation administration may be certified, the Social Security Board must find that the State law includes provisions for "such methods of administration (other than those relating to selection, tenure of office, and compensation of personnel) as are found by the Board to be reasonably calculated to insure full payment of unemployment compensation when due." In another section, the Board is required, in making such grants, to determine the amount "necessary for proper administration" of the State law.

The Board believes that proper administration must necessarily include adequate provision for the selection, tenure of office, and compensation of personnel. Therefore it may be argued that a conflict exists in the present Federal provisions. The Board believes this should be resolved by repealing the parenthetical language quoted above.

In the opinion of the Board it is sound policy for the State unemployment compensation agencies to have entire authority and respon-



sibility for the selection, tenure of office, and compensation of individual employees. But this authority and responsibility should be exercised in accordance with a systematic merit system for the establishment and maintenance of desirable personnel standards. The Board therefore recommends that for the parenthetical language already quoted, there be substituted language requiring that methods of State administration shall include procedures for the establishment and maintenance of personnel standards on a merit basis.

Such merit systems should include, as does the Federal civil-service law, prohibition against political solicitation and political activity, since the salaries of State unemployment compensation personnel are paid entirely out of Federal funds.

Thirty-nine State unemployment compensation agencies already operate under a general State civil-service law or in accordance with a merit system established for or by the agency itself. The effect of this suggested amendment would simply be to make personnel practices already put into operation by a large majority of States more general.

The Board believes that requiring the State agencies to establish a merit system would place Federal-State relations on a more stable and automatic basis. In actual experience the result of establishing an adequate State personnel system has been to eliminate the necessity for detailed Federal scrutiny of operation, and the possibility of misunderstanding and conflict in Federal-State relations. The suggested requirement thus constitutes not an encroachment of Federal authority in State operations, but rather a protection to the States against undue interference with their administrative functioning.

The establishment of a merit system also protects taxpayers and beneficiaries within the State, inasmuch as it materially reduces the hazard that administration will become so unsatisfactory that the State law can no longer be certified by the Board as meeting the administrative standards of the Federal act. Such inability to certify means that employers in a State would be required to pay to the Federal Government 100 percent instead of 10 percent of the Federal tax, in addition to paying their full tax under the State unemployment compensation law. Up to the present the Board has not found it necessary to withhold certification in the case of unemployment compensation, although it has been necessary to take such action regarding public assistance grants. Effective safeguards should be set up, in order to eliminate the possibility that the derelictions of their public servants may bring such a penalty upon innocent citizens of a State.

#### UNIFICATION OF UNEMPLOYMENT COMPENSATION AND EMPLOYMENT SERVICE

In order to promote effective administration, the Board recommends that the administration of unemployment compensation and of the United States Employment Service be unified in a single Federal bureau, in such a way that the specialized functions of each are not only protected but strengthened. In all other countries having unemployment compensation systems, a single governmental agency administers both the placement function and the insurance function. This has been found necessary because of the close relationship essential to the proper carrying out of these two functions. In this



country each is under a separate Federal agency, although in all the States but one a single State agency administers the unemployment compensation law and operates the State employment service.

The Social Security Act, provides that unemployment compensation may be paid through public employment offices or such other agencies as the Social Security Board may approve. The Board has fully recognized the desirability of paying claims through public employment offices, in order to aid the unemployed worker in finding new employment, and to reduce the amount of unemployment compensation claims to a minimum. It has, therefore, not approved of payment of unemployment compensation claims through any agencies other than employment offices.

Recognizing the necessity for an efficient employment service as a part of the proper administration of a State unemployment compensation law, the Board has made grants to the States for the administration of their employment services. The Board has realized that it would be uneconomical, undesirable, and impracticable to have two employment services—one for workers covered under the unemployment compensation laws and one for workers not so covered. Therefore, it has encouraged the States to affiliate with the United States Employment Service and to match the Federal funds available in connection with that service. All the States have taken this action. The Federal funds available to them from this source have been substantially augmented by grants from the Social Security Board. Of the total funds now being expended for the operation of the expanded Federal-State employment service, approximately 80 percent is provided by grants from the Board, 10 percent by grants from the United States Employment Service, and 10 percent by the States themselves.

From the outset the Board has recognized the necessity for coordinating and integrating its unemployment compensation functions with those of the United States Employment Service, in order to avoid the dilemma in which the State agencies would be placed if obliged to deal with two Federal agencies having conflicting standards and policies. The Board, therefore, negotiated an agreement with the Secretary of Labor whereby the United States Employment Service and the Board's Bureau of Unemployment Compensation would act as if they were a single agency. This joint agreement has promoted a considerable degree of coordination and integration. But complete integration is necessary in the interests of economy, efficiency, and good will. The day-to-day activities of the local employment offices, through which unemployment compensation claims are paid, are closely interrelated and vary in such a way between unemployment compensation and placement work, that it is necessary for a considerable amount of care to go from one function to another as occasion requires. Only unified supervision and direction can properly protect and integrate the various functions that must be performed if unemployed workers and employers are to be served adequately.

#### OTHER ADMINISTRATIVE CHANGES

The Board recommends a number of other changes designed to improve the administration of the present program:

1. Increasing the authorization for the annual appropriation of Federal funds to assist the States in the administration of their unemployment compensation laws. The present maximum of \$49,000,000

is clearly insufficient to cover the necessary cost of proper administration. The Board recommends that the maximum be raised to \$80,000,000. The history of this legislation indicates that Congress intended that the 10-percent net proceeds of the Federal tax should cover the entire cost of administration. An authorization of this increased amount would still be covered by the probable proceeds of this tax.

2. Supplementary provisions authorizing the Social Security Board to enforce requirements that expenditure by State officials of Federal funds be in accordance with the purposes authorized by the act.

3. Changing the base of the pay-roll tax from "wages payable" to "wages paid," thus making it the same as that for old-age insurance taxes.

4. Permitting the employers to offset against their Federal tax, up to the 90-percent maximum, all contributions made under State unemployment compensation laws, regardless of whether or not the latter are made with respect to employment as defined under the Federal law.

5. Exclusion of nominal wages paid to employees of nonprofit organizations, as already recommended under old-age insurance.

6. Exclusion from the definition of wages of all payments made by an employer to or in behalf of an employee under any benefit plan or system, as described in the identical recommendation made with regard to old-age insurance.

7. Extending the time within which credit may be claimed under the Federal taxing provisions in cases where the employer has paid his State tax on time, but has paid it to the wrong State.

8. Authorizing the States to make their unemployment compensation laws applicable to persons employed upon land held by the Federal Government, such as employees of hotels in national parks. Congress has already enacted a statute giving the States authority to apply their workmen's compensation laws to such employees.

9. Clarification of the language excluding State instrumentalities to indicate that the exemption applies to any instrumentality wholly owned by the State or political subdivision as well as to those which would be exempt under the Constitution.

10. Clarification of the law as regards services of an employee performing both excluded and included employment. The same recommendation is made in connection with old-age insurance.

11. Clarification of the provisions relating to so-called "merit rating" or "experience rating" under State unemployment compensation laws.

#### PUBLIC ASSISTANCE

The Social Security Act offers the States Federal aid in providing public assistance for three groups of the needy—the aged, the blind, and dependent children. The Nation-wide development of these programs since the passage of the act leaves no question as to the effectiveness of this Federal legislation in promoting more systematic, equitable, and humane assistance to these needy men, women, and children.

As a result of the Federal grants-in-aid which the act makes available, all the States and Territories and the District of Columbia have joined in the Federal-State old-age assistance program. Forty States, the District of Columbia, and Hawaii are taking part in the program

for aid to dependent children, and the same number in aid to the needy blind. By the close of 1938 some 1,771,000 old people, 636,000 children, and 42,000 blind were thus being aided from combined Federal and State funds. The total amount of Federal and State aid given during the current fiscal year will approximate half a billion dollars.

The Board recommends no fundamental change in Federal-State relations as regards public assistance. It believes, however, that certain substantive and procedural changes can be made which will greatly strengthen and improve the protection now afforded.

#### OLD-AGE ASSISTANCE AND AID TO THE BLIND

At the present time, in addition to reimbursing the States for 50 percent of their assistance payments to the needy aged and needy blind (subject to a maximum of \$30 a month for each person aided), the Federal Government makes an additional grant of 5 percent which the State may apply to administration. This flat 5 percent does not represent an adequate Federal contribution for proper administration; and the Board, therefore, recommends that the law be amended so that Federal grants may reimburse the States for 50 percent of the necessary cost of proper administration.

#### AID TO DEPENDENT CHILDREN

The Board strongly recommends that grants-in-aid to the States for aid to dependent children be placed on the 50-percent matching basis already in effect for the other two programs. At the present time the Federal Government contributes only one-third of the payments made by the States to dependent children. As a result, fewer States are participating in this program, and in many of the States that are participating, the level of assistance for dependent children is lower than that for the aged and the blind. The number of old people now being aided through Federal grants is three times as large as the number of dependent children. But the actual number of dependent children in need of assistance and eligible under Federal and State standards is probably fully as large as the number of needy aged now receiving assistance.

At present the maximum amounts which may be taken into consideration in making Federal grants are \$18 for the first child and \$12 for each additional child in the family. The Board recommends that these maximum limitations be raised to the same maximum as that provided in the case of needy aged and needy blind.

In addition to these changes in the basis of Federal matching, the Board recommends that the age limit for dependent children should be raised in the Federal law from 16 to 18 when the child is regularly attending school. This would recognize the present desirable tendency for children to finish high school before seeking permanent employment.

For aid to dependent children the Federal law already provides that the cost of administration shall be reimbursed by the Federal Government in the same proportion as the cost of assistance. This should be retained in placing Federal grants for this program on an equal matching basis.



## PUBLIC ASSISTANCE FOR INDIANS

A number of States have a considerable Indian population, some of whom are still wards of the Federal Government. The Board believes that in cases where such individuals are in need of old-age assistance, aid to the blind, or aid to dependent children, the Federal Government should pay the entire cost. If this provision is made, the Board should be authorized to negotiate cooperative agreements with the proper State agencies so that aid to these Indians may be given in the same manner as to other persons in the State, the only difference being in the amount of the Federal contribution. The Board believes that it should also be given authority to grant funds to the Office of Indian Affairs for this purpose, if that appears more desirable in certain circumstances.

## VARIABLE GRANTS

Federal grants-in-aid under the three public assistance provisions of the Social Security Act will total approximately a quarter of a billion dollars during the current fiscal year. These grants are made to all States on the same percentage basis, regardless of the varying capacity among the States to bear their portion of this cost. The result has been wide difference between the States, both in number of persons aided and average payments to individuals. Thus in the case of old-age assistance the number of persons being aided varies from 54 percent of the population over 65 years of age in the State with the highest proportion to 7 percent in that with the lowest proportion. Similarly State averages for payments to needy old people range from about \$32 per month to \$6. While these variations may be explained in part on other grounds, there is no question that they are due in very large measure to the varying economic capacities of the States.

The Board believes that it is essential to change the present system of uniform percentage grants to a system whereby the percentage of the total cost in each State met through a Federal grant would vary in accordance with the relative economic capacity of the State. There should, however, be a minimum and maximum limitation to the percentage of the total cost in a State which will be met through Federal grants. The present system of uniform percentage grants results at best in an unnecessarily large amount of money flowing in and out of the Federal Treasury, and at worst in increasing the inequalities which now exist in the relative economic capacities of the States.

The Board believes that, with such large sums involved, it would be desirable to establish an interdepartmental agency representing the various governmental departments which collect and analyze economic data having a bearing on the relative economic capacity of the various States. Such an agency could be given the responsibility of determining the relative economic capacity of the various States upon the basis of which the varying percentages of Federal grants would be computed.

## STATE PERSONNEL

With regard to requiring States to establish merit systems for the selection and maintenance of personnel, the Board makes the same recommendations for public assistance as for unemployment com-



pensation. These—and the reasons therefor—have already been set forth. It should be noted that in 19 States public assistance agencies already operate under a systematic merit system and that in varying degrees all the States have set up objective standards of some sort for the selection of public assistance personnel. In public assistance, as in unemployment compensation, this provision would strengthen State administration, safeguard taxpayers and beneficiaries, and place Federal-State relations in a more stable and automatic basis.

#### DISCLOSURE OF CONFIDENTIAL INFORMATION

The Board recommends that State public assistance plans be required, as one of the conditions for the receipt of Federal grants, to include reasonable regulations governing the custody and use of its records, designed to protect their confidential character. The Board believes that such a provision is necessary for efficient administration, and that it is also essential in order to protect beneficiaries against humiliation and exploitation such as resulted in some States where the public has had unrestricted access to official records. Efficient administration depends to a great extent upon enlisting the full cooperation of both applicants and other persons who are interviewed in relation to the establishment of eligibility; this cooperation can only be assured where there is complete confidence that the information obtained will not be used in any way to embarrass the individual or jeopardize his interests. Similar considerations are involved in safeguarding the names and addresses of recipients and the amount of assistance they receive. Experience has proved that publication of this information does not serve the avowed purpose of deterring ineligible persons from applying for assistance. The public interest is amply safeguarded if this information is available to official bodies.

#### ADMINISTRATIVE CHANGES

The Board recommends a number of minor technical changes to clarify and simplify existing Federal public assistance provisions: Of these the most important is provision for a different method of settlement with the States for amounts recovered from the estates of deceased recipients of old-age assistance. At present the States are not required to make collections against the estates of deceased recipients; nor does the Board propose that any such requirement be set up. However, a number of States do make such collections in accordance with their own plans. The present method of settlement between the States and the Federal Government in such cases creates needless administrative difficulties which can readily be eliminated by permitting the Federal Government to offset its pro rata share of the amounts recovered against the next payment made by it to the State.

#### HEALTH

The Chairman of the Social Security Board is a member of the Interdepartmental Committee to Coordinate Health and Welfare Activities which has presented to the President a long-range National Health Program. The Board is of the opinion that the enactment of

the National Health Program would not only result in meeting more adequately the needs of those now receiving aid under the Social Security Act, but would also have a material effect in reducing the future cost of public assistance under the act.

Recommendation V of the National Health Program calls for insurance against loss of wages during disability not arising out of employment. The Board believes that adoption of this recommendation would go far toward completing the protection now afforded workers against loss of wages. The present State workmen's compensation laws offer protection against loss of wages resulting from injury arising out of employment. The State unemployment compensation laws furnish some protection against wage loss due to unemployment. The Federal old-age insurance system will provide protection against permanent loss of wages due to old age. But, though some workers have some protection through voluntary insurance, no comprehensive protection yet exists against unemployment due to disability not connected with employment.

As already indicated in the discussion of old-age insurance, the Board believes that if protection against wage loss due to permanent total disability is provided, it should be linked with that program since permanent disability is most likely to occur among older workers, and the permanently disabled worker leaves the labor market in much the same sense as does the aged person. Another reason for linking permanent total disability with old-age insurance is that the latter is on a Federal basis. The load would thus be more evenly distributed among the States than would be possible if permanent total disability were administered on a State-by-State basis, since some States have higher proportions of the older persons among whom disability more frequently occurs.

As regards temporary disability compensation, the Board believes that this can be placed on a State basis following the precedent of unemployment compensation. The Board recommends that if such a program is inaugurated, it incorporate taxing and grants-in-aid provisions like those in operation for unemployment compensation—that is, provision for a uniform, Federal pay-roll tax against which employers would be permitted to offset a substantial percentage of their contributions under State laws for this purpose. If Congress should not wish to levy an additional pay-roll tax at this time, this offset might be allowed against the present tax levied upon the employer under the old-age insurance system. But it should be realized that this would materially reduce the proceeds available for future old-age insurance benefits. The Board estimates that a system of temporary disability compensation would involve a cost of approximately 1 percent of wages. If a State levied a tax of 1 percent payable equally by employers and employees, allowance to employers of an offset up to 90 percent of a Federal tax of one-half of 1 percent would be sufficient to enable the States to provide temporary disability compensation, without the risk of unfair competition on the part of employers in other States that fail to pass such legislation. In order to afford the States ample opportunity to enact the necessary legislation, the Board recommends that any Federal action in this field should not be made effective prior to January 1, 1941.

## GENERAL

The Board recommends the following amendments of a general character. These are to a large extent self-explanatory:

1. An amendment to prohibit the disclosure of information obtained by the Board or its employees except under certain restricted conditions related to proper administration. The provisions which the Board recommends are similar to those already applicable to the Veterans' Administration.

2. An amendment to confer upon the Social Security Board the power to issue subpoenas, administer oaths, and examine witnesses and the like in connection with its administration of the Social Security Act. This recommendation is in line with the authority conferred on numerous other administrative agencies, such as the Veterans' Administration, the Federal Trade Commission, and the Securities and Exchange Commission.









# ADVISORY COUNCIL ON SOCIAL SECURITY

APPOINTED BY A SUBCOMMITTEE OF THE COMMITTEE  
ON FINANCE IN COOPERATION WITH THE SOCIAL  
SECURITY BOARD TO STUDY THE ADVIS-  
ABILITY OF AMENDING THE  
SOCIAL SECURITY ACT

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FINAL REPORT

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DECEMBER 10, 1938



PRESENTED BY MR. HARRISON

JANUARY 5, 1939.—Ordered to be printed

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UNITED STATES  
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## FOREWORD

The Advisory Council on Social Security was appointed by the Senate Special Committee on Social Security (subcommittee of the Committee on Finance) and the Social Security Board in May 1937. The following announcement, which was issued at that time, explains the purposes for which the council was appointed and lists its members:

At a hearing before the Committee on Finance of the United States Senate on February 22, 1937, it was agreed that the chairman of the Committee on Finance would appoint a special committee to cooperate with the Social Security Board to study the advisability of amending titles II and VIII of the Social Security Act. The chairman of the Committee on Finance has appointed such a special committee consisting of Senator Pat Harrison, Senator Harry Flood Byrd, and Senator Arthur H. Vandenberg. It was agreed that this special committee in cooperation with the Social Security Board would appoint an Advisory Council on Social Security to assist in studying the advisability of amending titles II and VIII of the Social Security Act.

It is desired that the Advisory Council on Social Security cooperate with the Special Committee of the Committee on Finance of the United States Senate and with the Social Security Board in considering the following matters:

- (1) The advisability of commencing payment of monthly benefits under title II sooner than January 1, 1942;
- (2) The advisability of increasing the monthly benefits payable under title II for those retiring in the early years;
- (3) The advisability of extending the benefits in title II to persons who become incapacitated prior to age 65;
- (4) The advisability of extending the benefits of title II to survivors of individuals entitled to such benefits;
- (5) The advisability of increasing the taxes less rapidly under title VIII;
- (6) The advisability of extending the benefits under title II to include groups now excluded;
- (7) The size, character and disposition of reserves;
- (8) Any other questions concerning the Social Security Act about which either the Special Senate Committee or the Social Security Board may desire the advice of the Advisory Council.

It is understood that the Social Security Board will make all necessary studies and furnish all necessary technical assistance in connection with the consideration of the foregoing subjects. It is further understood that these subjects will be considered jointly by the Advisory Council, the Special Senate Committee, and the Social Security Board.

The Special Committee on Social Security of the Committee on Finance of the United States Senate and the Social Security Board join in appointing the following persons to serve as members of an Advisory Council on Social Security:<sup>1</sup>

### REPRESENTING EMPLOYEES

G. M. Bugniazet, secretary, International Brotherhood of Electrical Workers of America, and president, Union Cooperative Insurance Association, Washington, D. C.

Harvey Fremming, president, Oil Field, Gas Well and Refinery Workers International Union, Fort Worth, Tex.

John P. Frey, president, Metal Trades Department of the American Federation of Labor, Washington, D. C.

Sidney Hillman,<sup>2</sup> president, Amalgamated Clothing Workers of America, New York, N. Y.

<sup>1</sup> Where the connections or positions of the members of the council have changed since their appointment, the present position is indicated.

<sup>2</sup> Lee Pressman, general counsel, Congress of Industrial Organizations, Washington, D. C., served as alternate for Mr. Hillman.



Philip Murray, vice president, United Mine Workers of America, Washington, D. C.

Matthew Woll, vice president, International Photo Engravers' Union of North America, and president, Union Labor Life Insurance Co., New York, N. Y.

#### REPRESENTING EMPLOYERS

Marion B. Folsom, treasurer, Eastman Kodak Co., Rochester, N. Y.

Walter D. Fuller, president, Curtis Publishing Co., Philadelphia, Pa.

Jay Iglauer, vice president and treasurer, Halle Brothers Co., Cleveland, Ohio.

M. Albert Linton, president, Provident Mutual Life Insurance Co., Philadelphia, Pa.

E. R. Stettinius, Jr., chairman of the board, United States Steel Corporation, New York, N. Y.

Gerard Swope, president, General Electric Co., New York, N. Y.

#### REPRESENTING THE PUBLIC

J. Douglas Brown, Princeton University, Princeton, N. J.

Henry Bruère, president, The Bowery Savings Bank, New York, N. Y.

Paul H. Douglas, University of Chicago, Chicago, Ill.

William Haber, University of Michigan, Ann Arbor, Mich.

Alvin H. Hansen, Harvard University, Cambridge, Mass.

Lucy R. Mason,<sup>3</sup> general secretary, National Consumers' League, New York, N. Y.

Theresa McMahon, University of Washington, Seattle, Wash.

Gerald Morgan, Hyde Park, N. Y.

A. H. Mowbray, University of California, Berkeley, Calif.

T. L. Norton, University of Buffalo, Buffalo, N. Y.

George W. Stocking, University of Texas, Austin, Tex.

Elizabeth Wisner, past-president of the Association of Schools of Social Work, New Orleans, La.

Edwin E. Witte, University of Wisconsin, Madison, Wis.

The council held its first meeting in Washington on November 5 and 6, 1937. Other meetings have been held in December 1937 and February, April, October, and December 1938. To provide for the continuous study of the problems before the council and to plan the agenda of the full sessions of the council, an interim committee of the council was appointed. This committee, including two representatives of industry, two representatives of labor, and three representatives of the public, has held frequent meetings during the past year and has been of great assistance to the council in its work. At the same time, the individual members of the council have continued their study of the questions before the council through the use of a large number of documents and reports prepared by the Social Security Board and the interim committee. Discussions at meetings have been supplemented by a large volume of correspondence among the members of the council and between them and the Social Security Board.

The Social Security Board has been most generous in assigning a large number of its research and administrative technicians for protracted periods to the preparation of material requested from time to time by the council. At the meetings both of the council and of the interim committee, the principal officials of the Board have afforded their help in the study of the technical aspects of the problems before the council. At the invitation of the council, experts from the Treasury Department and the Post Office Department have been present when subjects affecting these Departments have been considered.

<sup>3</sup> Resigned. Miss Josephine Roche, the Rocky Mountain Fuel Co., Denver, Colo., was appointed to fill the vacancy.

In addition to the assistance afforded by the Social Security Board, the council has received valuable suggestions from the members of the Senate Special Committee. It has also studied the proposals concerning old-age security advanced by a large number of bodies representing industry, labor, professional, social welfare and general-citizen groups. The recommendations developed by committees of experts and by individual students of social insurance have been carefully analyzed and examined. To the extent time has permitted, the council has invited a number of outstanding experts on various aspects of the problem of old-age security to present their views orally.

In accordance with the terms of its appointment, the council has concentrated its attention on problems connected with the old-age insurance program established by titles II and VIII of the Social Security Act and the means by which the program there established might be improved or extended. While keenly interested in the other phases of social security affected by the Social Security Act as a whole, the council considered its specific task to be concerned with these two titles of the law, including their relation to the old-age assistance program provided in title I.

From time to time in the course of its deliberations, the council has submitted to the Senate Special Committee and the Social Security Board interim recommendations or statements on subjects upon which immediate comment seemed desirable. In December 1937, the council unanimously approved proposals developed by the Social Security Board for the amendment of titles II and VIII in regard to coverage. The amendments then approved are outlined in the body of this report. On April 29, 1938, the council made further recommendations as to coverage, which are likewise repeated herein, and also approved a statement concerning the financing of the old-age insurance system which will be found in the appendix of this report.

The recommendations which follow, while stated in principle, have been developed through intensive study of the practical problems involved in their application. In the course of the deliberations, the council has had before it a series of carefully developed proposals, accompanying financial and actuarial studies, and administrative provisions in outline form. Each proposal, applying the principles under discussion, has been examined in order to test the principle involved and its practicability. The council in presenting its recommendations has confined itself to statements of principle supplemented by brief summaries of the reasons for each conclusion.



## SUMMARY OF RECOMMENDATIONS

### A. RECOMMENDATIONS ON BENEFITS

I. The average old-age benefits payable in the early years under title II should be increased.

II. The eventual annual cost of the insurance benefits now recommended, in relation to covered pay roll and from whatever source financed, should not be increased beyond the eventual annual disbursements under the 1935 act.

III. The enhancement of the early old-age benefits under the system should be partly attained by the method of paying in the case of a married annuitant a supplementary allowance on behalf of an aged wife equivalent to 50 percent of the husband's own benefit; *provided*, that should a wife after attaining age 65 be otherwise eligible to a benefit in her own right which is larger in amount than the wife's allowance payable to her husband on her behalf, the benefit payable to her in her own right will be substituted for the wife's allowance.

IV. The minimum age of a wife for eligibility under the provision for wives' supplementary allowances should be 65 years; *provided*, that marital status had existed prior to the husband's attainment of age 60.

V. The widow of an insured worker, following her attainment of age 65, should receive an annuity bearing a reasonable relationship to the worker's annuity; *provided*, that marital status had existed prior to the husband's attainment of age 60 and 1 year preceding the death of the husband.

VI. A dependent child of a currently insured individual upon the latter's death prior to age 65 should receive an orphan's benefit, and a widow of a currently insured individual, *provided* she has in her care one or more dependent children of the deceased husband, should receive a widow's benefit.

VII. The provision of benefits to an insured person who becomes permanently and totally disabled and to his dependents is socially desirable. On this point the council is in unanimous agreement. There is difference of opinion, however, as to the timing of the introduction of these benefits. Some members of the council favor the immediate inauguration of such benefits. Other members believe that on account of additional costs and administrative difficulties, the problem should receive further study.

VIII. In order to compensate in part for the additional cost of the additional benefits herein recommended, the benefits payable to individuals as single annuitants after the plan has been in operation a number of years should be reduced below those now incorporated in title II. If the national income should increase in future years, these reductions may not be necessary.

IX. The death benefit payable on account of coverage under the system should be strictly limited in amount and payable on the death of any eligible individual.

X. The payment of old-age benefits should be begun on January 1, 1940.



**B. RECOMMENDATIONS ON COVERAGE**

I. The employees of private nonprofit religious, charitable, and educational institutions now excluded from coverage under titles II and VIII should immediately be brought into coverage under the same provisions of these titles as affect other covered groups.

II. The coverage of farm employees and domestic employees under titles II and VIII is socially desirable and should take effect, if administratively possible, by January 1, 1940.

III. The old-age insurance program should be extended as soon as feasible to include additional groups not included in the previous recommendations of the council and studies should be made of the administrative, legal, and financial problems involved in the coverage of self-employed persons and governmental employees.

**C. RECOMMENDATIONS ON FINANCE**

I. Since the nation as a whole, independent of the beneficiaries of the system, will derive a benefit from the old-age security program, it is appropriate that there be Federal financial participation in the old-age insurance system by means of revenues derived from sources other than pay-roll taxes.

II. The principle of distributing the eventual cost of the old-age insurance system by means of approximately equal contributions by employers, employees, and the Government is sound and should be definitely set forth in the law when tax provisions are amended.

III. The introduction of a definite program of Federal financial participation in the system will affect the consideration of the future rates of taxes on employers and employees and their relation to future benefit payments.

IV. The financial program of the system should embody provision for a reasonable contingency fund to insure the ready payment of benefits at all times and to avoid abrupt changes in tax and contribution rates.

V. The planning of the old-age insurance program must take full account of the fact that, while disbursements for benefits are relatively small in the early years of the program, far larger total disbursements are inevitable in the future. No benefits should be promised or implied which cannot be safely financed not only in the early years of the program but when workers now young will be old.

VI. Sound presentation of the government's financial position requires full recognition of the obligations implied in the entire old-age security program and treasury reports should annually estimate the load of future benefits and the probable product of the associated tax program.

VII. The receipts of the taxes levied in title VIII of the law, less the costs of collection, should through permanent appropriation be credited automatically to an old-age insurance fund and not to the general fund for later appropriation to the account, in whole or in part, as Congress may see fit. It is believed that such an arrangement will be constitutional.

VIII. The old-age insurance fund should specifically be made a trust fund, with designated trustees acting on the behalf of the prospective beneficiaries of the program. The trust fund should be dedicated exclusively to the payment of the benefits provided under

the program and, in limited part, to the costs necessary to the administration of the program.

IX. The consideration of change in the tax schedule under title VIII of the law should be postponed until after the rates of 1½ percent each on employer and employee are in effect since information will not be available for some time concerning (a) tax collections under varying conditions, (b) effective coverage under taxes and benefits, (c) average covered earnings, period of coverage, time of retirement, and average amount of benefits, (d) the possibilities of covering farm labor, domestic employees or self-employed persons, and (e) the possibilities of introducing new types of benefits.

X. The problem of the timing of the contributions by the government, taking into account the changing balance between pay-roll-tax income and benefit disbursements, is of such importance as to require thorough study as information is available.

XI. Following the accumulation of such information, this problem should be restudied for report not later than January 1, 1942, as to the proper planning of the program of pay-roll taxes and governmental contributions to the old-age insurance system thereafter, since by that time experience on the basis of 5 years of tax collections and 2 years of benefit payments (provided the present act is amended to that effect) will be available. Similar studies should be made at regular intervals following 1942.



# FINAL REPORT OF THE ADVISORY COUNCIL ON SOCIAL SECURITY

## INTRODUCTION

The Social Security Act became law on August 14, 1935. A major purpose of the statute was to provide a constructive program for meeting the growing national problem of old-age dependency. Under title I of the act provision was made for Federal subsidies to approved State programs for old-age assistance. By the use of the method of assistance, encouraged and aided under this title, needy persons already old or becoming old in the future without the opportunity of accumulating sufficient rights to benefits under an insurance program were afforded basic protection against want. Under titles II and VIII, through separate provisions for old-age benefits and pay-roll taxes on employers and employees, there was established, in effect, a national system of old-age insurance. The method of insurance was approved by Congress as a means of *preventing* old-age dependency and of assuring protection to qualified individuals as a matter of right, without the use of the means test. These two measures provide a coordinated approach to a well-rounded program of old-age security.

The old-age benefits provided in title II of the Social Security Act are payable to qualified persons 65 years of age and over commencing January 1, 1942. The amount of benefit is determined by the application of graduated percentages to the total covered earnings of the beneficiary under the system prior to age 65. A minimum monthly benefit of \$10 is established as well as a maximum monthly benefit of \$85. It is estimated that the average monthly benefit payable by 1945 under existing provisions would be approximately \$19. Persons not qualified to receive the monthly benefit at the time of attainment of age 65, or the estates of persons dying before that age, receive a settlement equivalent in amount to 3½ percent of wages covered under the program. Under the present legislation no provision is made for the supplementary protection of male annuitants with a dependent aged wife, for the protection of the aged widow, or the younger widow and dependent, surviving children of a deceased wage earner except upon a means test under titles I or IV.

Under title VIII of the act pay-roll taxes are levied upon covered employers and employees commencing at the rate of one percent on each in the years 1937-39, 1½ percent in the years 1940-42, and rising one-half of 1 percent on each in 3-year intervals until a permanent rate of 3 percent on each is reached in 1949. The proceeds of such taxes are covered into the general funds of the Treasury. Congress is authorized under title II of the act to appropriate to an old-age reserve account each year an amount sufficient as an annual premium to provide for the payment of the benefits afforded, such amount to be determined on a reserve basis in accordance with accepted actuarial principles. Investment of amounts credited to the account is limited



to the securities issued or guaranteed by the Federal government and yielding not less than a 3-percent return. The amount of pay-roll taxes collected through November 1938 was \$963,800,000. The amount in the old-age reserve account at that time was nearly \$1,132,700,000, of which \$830,300,000 was invested in special Treasury notes bearing 3-percent interest, approximately \$300,000,000 was held to the credit of the appropriation made by Congress, and nearly \$2,400,000 was held by the Treasury disbursing officer for the payment of benefits. Payments from the account for lump-sum settlements had amounted to \$10,000,000.

Since the enactment of the Social Security Act, the problem of old-age dependency in this country has been studied more thoroughly than in any other period in our history. Not only have the normal operations of the Social Security Board made available a large amount of additional material, but the research and actuarial staffs of the Board have, during the past 3 years, had an opportunity for the analysis and interpretation of rapidly accumulating data. While such studies are by no means definitive and must ever be subject to revision in the light of new information, the estimates of the present and future problem now available are of significance in planning any revision of our old-age security program.

It is estimated that approximately 65 percent of all persons aged 65 and over are wholly or partially dependent, of whom nearly one-third are dependent on public or private social agencies and two-thirds on friends and relatives. The number of aged persons in our population, moreover, is steadily growing. In 1900 there were only 3,080,000 persons 65 and over, representing 4.1 percent of the population. These figures reached 6,634,000, or 5.4 percent, in 1930, and will be about 8,180,000, or 6.3 percent, on January 1, 1939. Recent estimates by the National Resources Committee indicate that by 1980 we may have over 22,000,000 persons aged 65 and over, representing 14 to 16 percent of the total population. Recognizing these facts, it is possible to foresee that we shall have a growing number of aged persons for whom some provision must be made. This has been the experience of all industrial countries as their population became older and industrialization advanced.

The experience thus far developed in the application of title I of the Social Security Act is likewise of significance in planning any revision of the old-age insurance provisions of the act. The old-age assistance plan therein provided is already in operation in the 48 States, the District of Columbia, and the Territories of Alaska and Hawaii. Over \$800,000,000 has been expended by the Federal, State, and local governments for this purpose since February 11, 1936, when Federal funds first became available. Of this amount it is estimated that about \$380,000,000 will be expended for this purpose during the calendar year 1938. During September 1938 about 1,738,000 persons were in receipt of old-age assistance in the States. This number has grown from the 206,000 who were in receipt of old-age assistance in 27 States at the end of 1934 just prior to consideration of the Social Security Act in Congress. The average grant for old-age assistance was \$19.21 for the month of September 1938, but this varied from \$6.37 in Mississippi to \$32.39 in California. A recent study by the Social Security Board of recipients accepted by the States for assistance shows that about 35 percent received less than \$15 per month, over 50

percent amounts between \$15 and \$30, and nearly 15 percent \$30 and over. Of all married persons accepted for old-age assistance during 1937-38, over 40 percent had a spouse receiving a separate grant. The total to an aged couple may therefore be substantially higher than the general average.

In the month of September 1938 about 21.6 percent of all persons aged 65 and over were in receipt of assistance. This proportion varied from 54.5 percent in Oklahoma to 7.2 percent in New Hampshire.

After a thorough consideration of the growing problem of old-age dependency facing our country and of the experience thus far under the program of old-age assistance, the council is convinced of the wisdom of Congress in establishing a contributory program of old-age insurance. The council believes that such a method of encouragement of self-help and self-reliance in securing protection in old age is essentially in harmony with individual incentive within a democratic society. It is highly desirable in preserving American institutions to remove from as many individuals as possible, in the years to come, the necessity for dependency relief and to substitute instead protection afforded as a matter of right, related to past participation in the productive processes of the country. It is only through the encouragement of individual incentive, through the principle of paying benefits in relation to past wages and employment, that a sound and lasting basis for security can be afforded.

The council believes that the contributory insurance method safeguards not only the wage earner but the public as well. By this method benefits have a reasonable relation to wages previously earned, and costs may be kept in control relative to tax collections. Through careful planning, the continued payment of benefits can be assured without undue diversion of funds needed for other governmental services. At the same time, the routine nature of contributory old-age insurance permits the perfection of effective administrative machinery. The council is impressed by the effectiveness already attained in the administration of old-age insurance by the Social Security Board and believes that available skill in handling large-scale accounting operations is sufficient to meet new problems successfully.

Since contributory old-age insurance possesses these advantages over dependency relief or old-age assistance, it is in the public interest that the insurance program be improved and extended to cover additional groups. The council is convinced of the necessity of gradual evolution in the development of a broad social program such as this. At the same time, the speed of evolution in a democratic society must be related to the economic and social conditions present. The council is cognizant of the fact that a large amount of experience under similar insurance programs has developed abroad and that only in recent years has our country realized the necessity of social insurance systems under modern industrial conditions.

The council is also aware of the great financial costs, particularly in the future, involved in an insurance program. The pattern cannot be larger than the cloth; the degree of security afforded must be limited by the national income and the proportion of that income properly available for any specific purpose. Old-age insurance is only one element in the whole structure of governmental social services. The protection of the aged must not be at the expense of adequate protec-

tion of dependent children, the sick, the disabled, or the unemployed; or at the cost of impairing such essential services as education and public health or of lowering of the standard of living of the working population. However, the cost of old-age insurance is by no means a net addition to the costs of government. An old-age insurance program is not only an improvement upon the method of relief, but is also aimed to control and reduce the inevitable pressure to divert a larger and larger proportion of public funds in the form of free pensions to aged persons. The value to society of *preventing* dependency in old age, as far as possible, must be weighed against the cost of the insurance method.

In the course of its study of the problem, the council has become increasingly impressed by the need to revise the existing old-age insurance program in the direction of fitting the structure of benefits more closely to the basic needs of our people, now and in the future. With limited funds available for this type of insurance protection, the program will never be sufficient to afford the ideal standard of life for our aged citizens except insofar as insurance benefits are supplemented by individual savings. As a means of affording basic protection, however, the existing system can be much improved. With the advantage of more than 3 years of further study and experience since the passage of the act and with a greatly enhanced public understanding of the method of social insurance, the time seems ripe for the revision of the program to afford more adequate protection to more of our people. At the same time, the council has studied the financial problems involved and the best means by which the costs may be met. With a view to assuring basic protection for the largest possible number of our people, the council has thoroughly reexamined the principles upon which the financial aspects of the existing program were planned.

In the following outline of its recommendations, the council has departed somewhat from the precise order of the questions submitted to it by the Senate special committee and the Social Security Board. In the deliberations of the council, it was found that the logical development of its conclusions could best be presented under the following headings:

1. The improvement in the structure and scope of benefits.
2. The expansion of the system to cover a larger proportion of the population.
3. The best method of financing the program and of handling the necessary funds.

The council has sought in this way to answer to the best of its ability the questions submitted for its consideration.



## RECOMMENDATIONS AND CONCLUSIONS

### A. RECOMMENDATIONS ON BENEFITS

#### I. The average old-age benefits payable in the early years under title II should be increased.

Since it is the purpose of old-age insurance to prevent dependency in old age, the benefits payable under the program should, as soon as possible, be sufficient in amount to afford the aged recipient at least a minimum subsistence income. This does not mean that *minimum* old-age benefits must always exceed *maximum* old-age assistance grants since the two types of payment are based on different considerations in the individual case. Further, old-age benefits and old-age assistance grants cannot be properly compared in terms of national averages but should be examined relative to state or community conditions as to wage levels, living costs, and assistance grants. After study of such comparisons, however, the council believes that in a considerable proportion of cases, the schedule of old-age benefits established in title II will not provide reasonable benefits in the early years of the program. While, in some cases, it will be necessary to supplement insurance benefits by assistance grants despite any reasonable enhancement of early benefit payments, it is sound public policy to reduce this overlap considerably. Only by relieving a large proportion of the beneficiaries under the insurance system from the necessity of resorting to old-age assistance to supplement their benefits, will the social advantages of old-age insurance be realized.

The policy of paying higher benefits to persons retiring in the earlier years of the system than are the equivalent of the individual contributions is already established in the present act. Such a policy is not only sound social insurance practice but has long been recognized as necessary in private pension programs. Only through the payment of reasonable benefits can older workers be retired. It is believed that the reasoning which led to the application of the principle in the law in 1935 inevitably leads to a further application of the principle in the light of experience now available. The methods by which it is proposed to accomplish this are outlined in this report.

Since old-age insurance benefits are related to past wages, the upward adjustment of early minimum benefits in line with this recommendation can be attained only in terms of minimum needs as related to such wages, and not, as in old-age assistance, through investigation in the individual case. The council is convinced that the structure of the benefit schedule can be adjusted to meet more effectively the needs of insured persons retiring in the early years of the system. At the same time, it believes that the payment of higher benefits to persons retiring in the earlier years of the system than are the equivalent of their individual contributions should not be at the expense of reasonable differentials in benefit payments as related to taxable wages earned. As the system matures it may be advisable



to limit more strictly the "unearned" portion of the benefit payments where persons have spent but short periods of their working lives in covered employment.

**II. The eventual annual cost of the insurance benefits now recommended, in relation to covered pay roll and from whatever source financed, should not be increased beyond the eventual annual disbursements under the 1935 Act.<sup>4</sup>**

In considering specific improvements in the benefit structure under title II, the council believes it to be essential to avoid proposals which would increase the eventual annual disbursements under the old-age insurance system above those involved in the present act. While future years may bring changes in these eventual disbursements, it is unwise at this time to assign any larger share of our national income to old-age and survivors' protection some decades hence while other pressing social needs exist. The council is agreed, however, that the annual benefit disbursements in the earlier years of the program should be considerably increased in order that the insurance system fulfill its proper function more adequately. So far as possible, therefore, the council has sought to level out the progressive increases in the annual costs of the system to avoid a great upward acceleration of future disbursements, at the expense of inadequate protection in the early years, and at the risk of exceeding proper eventual limits. While old-age insurance disbursements will increase in years to come, a closer approximation of disbursements to available tax proceeds is in itself desirable in financing a continuing social insurance program.

It is possible to make only approximate estimates of the eventual disbursements under any insurance program. Information now available indicates that the benefit structure under title II of the present act will involve financing from all sources of an annual disbursement equivalent to 10 to 12 percent of covered pay roll by 1980 when persons now in their twenties will be at retirement age.<sup>5</sup> The council believes that any revised benefit structure recommended at this time should not involve eventual annual disbursements in excess of this approximate level.

It is recognized that further periodic studies of the disbursements under the program will permit a refinement of present actuarial estimates just as existing estimates are in turn a refinement of those made before the initiation of the program. It is reasonable to expect that surveys in the years to come may lead to a revision of best judgments concerning the probable eventual cost of any program. The council is agreed that the recommendations for revisions in the existing benefit structure here submitted can be reasonably implemented within the eventual cost limit now suggested.

It is understood by all members of the council that this recommendation relates only to the benefits recommended unanimously and does not apply to the disability benefits referred to in Recommendation VII.

<sup>4</sup> Several members of the council believe, in view of the other types of benefits which later may be added to the plan, that in adopting revised old-age and survivors' benefits their eventual cost should be kept within 10 percent of pay rolls, the original estimate of the probable eventual cost of the present old-age benefits when the act was adopted.

<sup>5</sup> Two members of the council who are actuaries fear that the upper limit of the eventual cost of the benefits provided by title II of the present Act will be higher than here estimated.

**III. The enhancement of the early old-age benefits under the system should be partly attained by the method of paying in the case of a married annuitant a supplementary allowance on behalf of an aged wife equivalent to 50 percent of the husband's own benefit; *provided*, that should a wife after attaining age 65 be otherwise eligible to a benefit in her own right which is larger in amount than the wife's allowance payable to her husband on her behalf, the benefit payable to her in her own right will be substituted for the wife's allowance.**

The inadequacy of the benefits payable during the early years of the old-age insurance program is more marked where the benefits must support not only the annuitant himself but also his wife. In 1930, 63.8 percent of men aged 65 and over were married. Payment of supplementary allowances to annuitants who have wives over 65 will increase the average benefit in such a manner as to meet the greatest social need with the minimum increase in cost. The council believes that an additional 50 percent of the basic annuity would constitute a reasonable provision for the support of the annuitant's wife. To increase the annuity in all cases, regardless of marital status, by this amount would, it is believed, involve unwarranted costs. It is true that in some instances a single annuitant will need to support an aged dependent relative. To make such relatives eligible for allowances would create many administrative problems. After careful consideration of many alternatives, the council believes the supplementary wives' allowance here proposed is an effective method of enhancing early benefits in accordance with Recommendation I.

Among the possible alternative methods of raising the average level of early benefits is that of a substantial readjustment of the present benefit formula to raise materially the amount paid all persons on the basis of the lowest segment of *accumulated wages* under the system. While such a readjustment would enhance the level of early benefits, it would likewise add a large and permanent burden of cost which would not be warranted in the later years of the program after a large proportion of aged wage earners had been under coverage for many years. The council believes that any adjustment in the benefit formula which raises the level of early benefits should be so designed as to avoid adding to this eventual burden. The method of the supplementary wives' allowance, while providing more adequate protection where needed, meets this limitation, since the allowance would be payable only where the wife is not eligible for a larger annuity on her own account.

In addition, the council believes that careful study should be given to the substitution of an *average wage* formula for the *accumulated wage* formula incorporated in the present Act. An average wage formula would more readily permit an increase in the early benefit payments and enable eventual costs to be kept within the limits prescribed under Recommendation II. Furthermore, in Recommendation VI the council is on record as approving the average wage formula for computing survivorship benefits. By basing all benefits under title II upon average wages, simplicity of understanding and administration is achieved as well as a consistent and related pattern of benefit payments.

As indicated in Recommendation VIII hereafter, the council recommends that the cost of the program of wives' allowances here proposed be financed in part through some reduction in the eventual rates of benefits payable to individuals as single annuitants. Not only does such a readjustment of the benefit structure seem socially desirable but such an adjustment can and should be made without doing violence to the principle of individual equity in the case of widowers, bachelors, and women workers, since such persons should receive in all cases insurance protection at least equal in value to their individual direct contributions invested at interest.

**IV. The minimum age of a wife for eligibility under the provision for wives' supplementary allowances should be 65 years; *provided*, that marital status had existed prior to the husband's attainment of age 60.**

This minimum age requirement with respect to eligibility for wives' allowances appears to the council to be necessary on the grounds of cost, internal consistency of the program, and administrative feasibility. It is recognized that the wives of a considerable proportion of aged men are several years younger than the men themselves and that where this discrepancy in ages occurs, the payment of the wives' allowance will be delayed some time after possible retirement of the husband. After thorough consideration of all possible alternatives, the council is convinced that the minimum age requirement here proposed is necessary and justifiable at this time.

A reduction of the age for eligibility for wives' allowances to 60 would involve anomalies and inequities between the wives of annuitants and women with wage credits in their own account against which benefits would not be payable until age 65. A reduction in the minimum age requirement to age 60 for both wives' allowances and annuities to all women, while eliminating such anomalies, would add greatly to the cost of the program. Women annuitants are already heavily favored by the plan since no account is taken in either contributions or benefits of their relatively longer life. The council believes such a large additional cost for this purpose to be unwarranted so long as far more pressing needs exist.

The requirement that the wives' allowance be payable only where marital status existed prior to the husband's attainment of age 60 is intended to serve as protection against abuse of the plan through the contracting of marriages solely for the purpose of acquiring enhanced benefits. If the marriage takes place at least 5 years before any old-age benefits can be paid, a reasonable assumption exists that it was contracted in good faith.

**V. The widow of an insured worker, following her attainment of age 65, should receive an annuity bearing a reasonable relationship to the worker's annuity; *provided*, that marital status had existed prior to the husband's attainment of age 60 and 1 year preceding the death of the husband.**

A haunting fear in the minds of many older men is the possibility, and frequently the probability, that their widows will be in need after their death. The day of large families and of the farm economy, when aged parents were thereby assured comfort in their declining years, has passed for a large proportion of our population. This



change has had particularly devastating effect on the sense of security of the aged women of our country.

Women as a rule live longer than men. Wives are often younger than their husbands. Consequently, the probabilities are that a woman will outlive her husband. Old-age insurance benefits for the husband, supplemented during his life by an allowance payable on behalf of his wife, fall considerably short, therefore, of providing adequate old-age security.

Lump-sum death benefits, such as payable under the present act, are a very unsatisfactory and ineffective form of protection. The amount in the individual case is quite unlikely to bear any reasonable relationship to the needs of the surviving widow. Payable immediately in one sum, such settlements are likely to be used for many other purposes long before her old age.

The council believes, therefore, that the old-age insurance program should include provision for old-age annuities for the widows of all covered workers. Where the worker had been an annuitant at time of death, it appears reasonable that his widow, if 65 or over, should receive an annuity equal to approximately three-fourths of the husband's annuity which would be equal to one-half of their combined annuity. Similar protection should be afforded if death occurred before the husband had reached old age. In the latter event, especially, there is some likelihood that the widow may reenter covered employment. If so, a systematic procedure should be available whereby she may build upon a *deferred* old-age annuity accruing to her as a result of her deceased husband's earnings. By such a supplement the needs in old age of women becoming widows either early or late in life can be more adequately met.

As in the case of wives' allowances, it is believed desirable to protect the provisions for widows' benefits against abuse by the requirement of a minimum period of marital status. It would also be necessary to provide that such widows' benefits terminate on remarriage.

The cost of financing the program of widows' protection here recommended can be met, in the judgment of the council, from the savings to the system in the revision of the present provisions for death benefits (as proposed in Recommendation IX), and in the reduction of the eventual rates of old-age benefits payable to single annuitants (as proposed in Recommendation VIII). It is believed that such a readjustment in the benefit structure is both in the public interest and equitable in its effect upon the various classes of beneficiaries under the system and may be expected to reduce the costs of old-age assistance.

**VI. A dependent child of a currently insured individual upon the latter's death prior to age 65 should receive an orphan's benefit, and a widow of a currently insured individual, provided she has in her care one or more dependent children of the deceased husband, should receive a widow's benefit.**

The council believes that a program of survivors' insurance, intended primarily for the protection of the dependent orphans of deceased wage earners, is of as much importance to the community as an old-age insurance program. While public assistance is now being provided to a large number of dependent children in this country on a needs-test basis, the arguments for substituting benefits as a matter



of right in the case of children are even more convincing than in the case of aged persons. A democratic society has an immeasurable stake in avoiding the growth of a habit of dependency among its youth. The method of survivors' insurance not only sustains the concept that a child is supported through the efforts of the parent, but affords a vital sense of security to the family unit.

The need for providing cash allowances for the care of dependent children has long been recognized in this country. "Mothers' aid" legislation was first adopted over 25 years ago and was greatly expanded through the program for aid to dependent children incorporated in the Social Security Act in 1935. Over 626,000 children in 254,000 families were receiving aid during the month of September 1938. The total expenditures for this aid in that month were over \$8,000,000, of which less than one-third was from Federal funds available through the Social Security Act. The average amount of aid per family for the month of September was \$31.72, or approximately \$13 per dependent child.

A recent study made by the Social Security Board of families accepted for aid to dependent children in 1937-38 showed that in about 43 percent of the families receiving such aid the father was dead.

While the expansion of aid to dependent children under the Social Security Act has been gratifying, there is great need for further protection of dependent children. In many instances, the aid is insufficient to maintain normal family life or to permit the children to develop into healthy citizens. Many deserving cases are not able to obtain any aid. Above all, the relief method is not the most desirable way of meeting childhood dependency. Social insurance offers an improved method of dealing with the problem.

A program of survivors' insurance providing for dependent children can be most effectively administered in conjunction with an old-age insurance program. Moreover, survivors' protection in the event of the early death of a wage earner with young children is the counterpart of the protection of the wage earner and his aged wife or widow should he live to retirement after his children are grown. These two types of protection can, therefore, be most effectively financed under a single insurance program. In addition to the fact that lump-sum settlements are undesirable, the death benefits under the existing provisions of title II, which are so payable, do not provide adequate survivors' protection. The council therefore recommends that the savings to the system accruing through the elimination of larger death benefits (proposed in recommendation IX) be used in part for the financing of a program of benefits to surviving dependent children.

The council recommends that, in addition to benefits for such children, benefits be payable to widows who have in their care one or more of their children of the deceased wage earner. Such payments are intended as supplements to the orphans' benefits with the purpose of enabling the widow to remain at home and care for the children. It is recommended that as soon as the last child attains the upper limit of age for eligibility for benefits, the payments to the widow shall cease. This is not intended, however, to affect her eligibility to an old-age annuity on her attainment of age 65.

As contrasted with the payments to widows with dependent children, here recommended, benefits to *all* younger widows would not only greatly increase the cost of the total program but would, it is

believed, divert funds from more pressing social needs. It is normal for a large majority of younger widows without dependent children to reenter employment. To provide continuing benefits to such widows would create not only many anomalies and inequities, but serious administrative difficulties as well.

In order to provide orphans' benefits of reasonable amount and related to the normal income of the deceased wage earner, it is recommended that such benefits be computed on a basis of average wages rather than of accumulated earnings as now provided in the case of old-age benefits under title II. Since death may occur at any age, average wages, on the one hand, and the number of dependents, on the other, are the significant factors. Survivors' insurance must be looked upon as current protection, closely related to the current earning status of the insured worker. At the same time, reasonable provision should be made for the continuance of insured status for a limited time where a period of sickness or unemployment precedes the death of the wage earner.

**VII. The provision of benefits to an insured person who becomes permanently and totally disabled and to his dependents is socially desirable. On this point the council is in unanimous agreement. There is difference of opinion, however, as to the timing of the introduction of these benefits. Some members of the council favor the immediate inauguration of such benefits. Other members believe that on account of additional costs and administrative difficulties, the problem should receive further study.**

With the growth of industry and urban life, the problem of providing for wage earners who become permanently and totally disabled before the age of retirement has become increasingly serious. While the number of persons who reach old age is much larger than the number who become disabled at younger ages, the latter state when it does materialize, is likely to be of more serious concern to the individual, his family, and the community. Moreover, protection against this hazard, except to the extent that workmen's compensation coverage applies, is even further out of the question for most wage earners than is protection against dependency in old age.

The members who favor the immediate inauguration of benefits for insured persons who become permanently and totally disabled prior to their attainment of age 65 and for their dependents call attention to the fact that this class of persons (except for the blind) is the only category of permanent social casualties who receive no insurance or assistance under the Social Security Act. No provisions whatever are made for them except general relief as administered by local communities, which is often entirely insufficient. No other group in our population is more completely dependent or in a more desperate economic situation. People who become permanently and totally disabled before reaching retirement age are economically in the same position, or a worse one, as those who are unable to work by reason of old age. By making early provisions for people who are permanently and totally disabled before age 65, it is hoped that much of the pressure for lowering the retirement age will be relieved.

The members who believe that immediate provisions should be made to provide protection for these unfortunates and their dependents recognize that the determination of permanent and total disa-

bility gives rise to difficult administrative problems and that a system of benefits such as they recommend may increase the total eventual benefit costs beyond the estimated ultimate costs of the benefits provided in the present law. They believe, however, that the administrative difficulties and those of calculating the exact costs are not so great as to warrant long continued delay. Nearly all other countries which have old-age insurance systems include protection for the permanently and totally disabled and have not found the administrative problems insurmountable. It is the opinion of these members, moreover, that the administrative problems involved will never be solved until benefit payments are actually begun. If the Social Security Act had not been launched until all administrative difficulties had been solved, this act would never have been put into operation.

Regarding costs, the members who favor immediate action direct attention to the fact that while estimates as to the eventual costs differ widely, it is agreed that, at least for some years, the additional costs of providing protection for this now unprotected group are but small. They also stress that society now bears a large cost for the support and care of the permanently disabled and their dependents in the form of relief and institutional care. In large part, the benefits under title II for the permanently and totally disabled will not be additional costs but a shifting of costs now borne in another form. For the unfortunates thus afflicted, however, the plan of including permanent and total disability along with old-age insurance means the substitution of the certainties of insurance for the uncertainties of relief.

While recognizing the desirability of providing protection against total and permanent disability and the advantages of contributory insurance as a method of attacking this problem, other members believe it is undesirable to recommend the initiation of a program of disability insurance at this time. The probable costs of such a program are extremely difficult to determine. Costs will vary with a large number of factors. The range between minimum and maximum estimates is wide. Until the probable costs of the old-age and survivors' insurance, recommended in this report, can be more accurately projected, it is unwise to recommend the assuming of the burden of a distinctly new type of protection, the cost of which is indeterminate and heavy.

Further, these members believe that disability insurance would introduce many administrative problems of great difficulty, and of a character apart from those involved in the program here recommended. The determination whether total and permanent disability exists in each individual case would not only require a highly skilled professional staff but would necessitate intensive and sustained local investigation to prevent abuse. The experience of the private insurance companies with total and permanent disability insurance has been so unfavorable that it has caused heavy and unexpected losses and has practically been abandoned.

These members believe that until coverage under the social security program has been widened to include other large groups in the population which are now excluded, there would be added administrative and financial problems resulting from shifts from uncovered to covered employment. Until the whole question of health insurance is given further consideration, definitive action on disability insurance should



be delayed. With added experience in the administration of the benefit programs now recommended, administrative problems under disability insurance should be more readily met.

**VIII. In order to compensate in part for the additional cost of the additional benefits herein recommended, the benefits payable to individuals as single annuitants after the plan has been in operation a number of years should be reduced below those now incorporated in title II. If the national income should increase in future years, these reductions may not be necessary.**

In order to provide more adequate basic protection to the wage earners of the country and at the same time fit the pattern of benefits to the financial cloth, it is believed that the formula used in the computation of old-age benefits should be revised in such a manner as to reduce the eventual rates of benefit payable to individuals as single annuitants. The council is convinced of the necessity of broadening the scope of insurance protection to include allowances for aged wives and benefits for aged widows and surviving dependent children. It is of the conclusion that the use of a part of the funds otherwise allocated to the payment of relatively high benefits to single individuals in future years to permit the immediate broadening of the protection afforded by the system is both socially justifiable and financially necessary. The single individual will not be deprived of adequate basic protection. Differentials in terms of past wages and employment will remain. It would not be necessary for the single individual to receive less in protection than the value of his direct contributions with interest. Meanwhile through life, the single person will have received directly or potentially the advantages of the protection of the family unit.

Certainty is more valuable than promises. Only by such readjustment of benefit schedules does the expansion of the scope of the insurance program seem financially feasible.

**IX. The death benefit payable on account of coverage under the system should be strictly limited in amount and payable on the death of any eligible individual.**

With the introduction of a systematic and adequate plan of survivors' protection under the old-age insurance program, all justification of the large lump-sum death benefits now possible under the existing provisions of title II disappears. The present lump-sum payments have been considered in the nature of rebates of contributions on a "savings-bank" basis and are in no way related in amount to the needs of a surviving family. At the same time the repayment of 3½ percent of covered wages to the estates of all deceased persons, regardless of the family situation, would consume a large amount of funds in the years to come. The council, therefore, recommends the substitution of a strictly limited death benefit such as 3 months' average wages but not in excess of \$200 and payable in all cases where the insured individual is eligible. On account of the diminishing number of cases affected as the program matures, it is recommended that no payment be made upon the death of an individual who is not eligible.

**X. The payment of old-age benefits should be begun on January 1, 1940.**



Since it is convinced of the importance of enhancing the effectiveness and adequacy of the contributory system of old-age protection in this country, the council recommends that benefits under the broadened program be begun on January 1, 1940. It is believed that such an advancement of the date of beginning benefits is not only financially and administratively feasible but of marked social advantage in enhancing public understanding of the method of contributory social insurance. Where existing needs can be met on an insurance basis, there seems little justification for unnecessary delay. Rather it is highly important that experience in the payment of benefits be obtained as soon as feasible in order to provide more definite experience for planning the financial program of the system. Many of the details of administering benefits can only be tested in operation. With marked progress already made in the administration of the program, the expansion of the existing benefit payment facilities of the Board could be readily accomplished in the course of the year 1939.

#### **B. RECOMMENDATIONS ON COVERAGE**

The council wishes to repeat the recommendations affecting coverage under the system adopted at its meeting in December 1937, and submitted to the Special Senate Committee and the Social Security Board at that time. These recommendations approved proposals developed by the Social Security Board for the amendment of titles II and VIII in the following particulars:

**1. An amendment which would permit an individual to qualify for monthly benefits and to secure a larger monthly benefit because of employment after age 65.**

**2. An amendment which would exclude from the definition of wages certain types of payments made by an employer to or on behalf of an employee under plans for providing for retirement or disability benefits.**

**3. The coverage of seamen under the program.**

**4. The coverage of employees of national banks, and of State banks which are members of the Federal Reserve System and of certain other Federal and State instrumentalities.**

**5. An amendment defining coverage of services under the Act depending on whether the excepted or included services predominate.**

In addition, the council makes the following recommendations at this time:

**I. The employees of private nonprofit religious, charitable, and educational institutions now excluded from coverage under titles II and VIII should immediately be brought into coverage under the same provisions of these titles as affect other covered groups.**

The council believes that there is no justification in social policy for the exclusion of the employees of such organizations from the protection afforded by the insurance program here recommended. Further, no special administrative difficulties exist in the coverage of the employees of such organizations under the system.

**II. The coverage of farm employees and domestic employees under titles II and VIII is socially desirable and should take effect, if administratively possible, by January 1, 1940.**

Farm and domestic employees are, in general, among those wage earners most in need of protection against dependent old age and premature death. Low wages and intermittent employment frequently combine to make individual savings difficult. Their exclusion from the existing legislation was based to a considerable extent on grounds of administrative difficulties foreseen with respect to wage reporting and tax collections. Recent studies indicate that the additional cost of extending the coverage of the system to these classes of workers will be considerably less than originally estimated since a large number of such workers are already coming under the system through employment in covered occupations on a seasonal or part-time basis. Intermittent coverage of this character is not only unsatisfactory in the benefits afforded but is a factor of uncertainty in financing the program. These groups could probably be covered by means of some form of stamp-book system applied to a limited number of broad wage classifications.

**III. The old-age insurance program should be extended as soon as feasible to include additional groups not included in the previous recommendations of the council and studies should be made of the administrative, legal, and financial problems involved in the coverage of self-employed persons and governmental employees.**

Consistent with its acceptance of the contributory insurance method as socially necessary and desirable, the council recommends the extension of the coverage of this method to the largest possible proportion of our gainfully employed population. An important group outside the existing program are those persons working on their own account such as business and professional men, farmers, and mechanics. Not only would the inclusion of this group be socially desirable, but it would also be a marked advantage in planning the financial program of the system. At present, the shift in and out of insurance coverage among this group of individuals is an added factor of uncertainty.

Despite the reasons in its favor, extension of coverage to the self-employed cannot be recommended at this time. The council finds that the administrative problems of obtaining reports of earnings and of collecting contributions from persons without an employer, together with the problems of financing the benefits to be paid such persons, are extremely difficult. The council believes that attempts to find a solution should be made, and urges that studies directed toward this end be continued.

#### C. RECOMMENDATIONS ON FINANCE

The council is convinced that the problem of financing the amended program of old-age and survivors' insurance here proposed must be approached as a part of the general fiscal problem of the government in providing for a continuing social service mechanism. In planning financial policy, conservatism is a necessity but at the same time flexibility is vital. In a continuing social insurance program, the cost of future benefits can only be estimated. The sources of future income can likewise only be estimated. Frequent revaluations of future costs and future income are essential to the safe planning of the system.

In its recommendations, the council has sought to attack the present problem of continuing old-age and survivors' protection, doing the

most possible to solve what can be solved now, avoiding, however, impossible or unreasonable commitments for future generations. As has been stated, the council has had before it, at its request, a series of carefully developed proposals, accompanying financial and actuarial studies, and administrative provisions in outline form. On the basis of such studies the council believes that the ultimate annual cost of the revised program here proposed would not exceed that involved in title II of the existing act although the volume of benefit payments would be increased in the earlier years.

Much of the present controversy in regard to the financing of the old-age insurance program has been concerned with long-run future policy. Experience developing since the initiation of the program and further studies of probable future trends have already shed much new light on the problem. The revision of the structure of benefits along the lines here recommended will aid materially in resolving the problem. After thorough canvassing of this aspect of the insurance program, the council makes the following recommendations.

**I. Since the Nation as a whole, independent of the beneficiaries of the system, will derive a benefit from the old-age security program, it is appropriate that there be Federal financial participation in the old-age insurance system by means of revenues derived from sources other than pay-roll taxes.**

Dependent old age has become a national problem. A steadily rising proportion of aged, technological change, mobility, and urban life have combined to create a condition which cannot be met effectively by State governments alone. The council has indicated its conviction of the importance of an adequate contributory insurance program in the prevention of the growth of dependency in a democratic society. Since the Nation as a whole will materially and socially benefit by such a program, it is highly appropriate that the Federal Government should participate in the financing of the system. With the broadening of the scope of the protection afforded, governmental participation in meeting the costs of the program is all the more justified since the existing costs of relief and old-age assistance will be materially affected.

Governmental participation in financing of a social insurance program has long been accepted as sound public policy in other countries. Definite limits exist in the proper use of pay-roll taxes. An analysis of the incidence of such taxes leads to the conviction that they should be supplemented by the general tax program. The prevention of dependency is a community gain in more than social terms.

**II. The principle of distributing the eventual cost of the old-age insurance system by means of approximately equal contributions by employers, employees, and the Government is sound and should be definitely set forth in the law when tax provisions are amended.**

The council believes that this recommendation is a logical implementation of the principle of governmental financial participation.

**III. The introduction of a definite program of Federal financial participation in the system will affect the consideration of the future rates of taxes on employers and employees and their relation to future benefit payments.**

Future taxes under the program must be determined in relation to the future volume of benefits as knowledge becomes more definite.



The introduction of Federal financial participation will permit redetermination of tax rates and intervals between adjustments of tax rates in relation to benefit costs, as then estimated, if such redetermination is deemed appropriate. Such adjustments may, under these conditions, be so determined as to affect the amount remaining on balance in the old-age insurance fund without the creation of serious financial problems as the system matures. The council believes that with Federal financial participation, problems of financial policy can be far more readily resolved.

**IV. The financial program of the system should embody provision for a reasonable contingency fund to insure the ready payment of benefits at all times and to avoid abrupt changes in tax and contribution rates.**

The council is of the conclusion that, in the financing of the insurance program, it is desirable to make provision for a contingency fund to insure ready payment of benefits at all stages of the business cycle and under varying conditions resulting from fluctuations in such factors as the average age of retirement, the total coverage under the program, and average wage rates. It is desirable that the payment of benefits should not be dependent upon quick congressional action in levying emergency taxes to meet deficits or in sudden raising of contribution rates when disbursements exceed current tax collections or normal appropriations to the system.

With the changes in the benefit structure here recommended and with the introduction of a definite program of governmental contributions to the system, the council believes that the size of the old-age insurance fund will be kept within much lower limits than are involved in the present act. Under social insurance programs it is not necessary to maintain a full invested reserve such as is required in private insurance, *provided* definite provision is made for governmental support of the system. The only invested fund then necessary would be a reasonable contingency fund as outlined above. The financial program inherent in the present act offers one means of meeting the future costs of an old-age insurance program. If the method of accumulating a relatively large reserve is eliminated, there must be, instead, the definite assurance that the program will be financed not by pay-roll taxes alone but, in addition, by governmental contributions from other sources. Without interest returns on a relatively large fund, pay-roll taxes alone would prove insufficient to meet the current disbursements necessary as the system matures. For this reason, the council insists that the principle of adequate governmental contributions should be definitely established in the law when tax provisions are revised, if the reserve policy under the old-age insurance program is changed.

**V. The planning of the old-age insurance program must take full account of the fact that, while disbursements for benefits are relatively small in the early years of the program, far larger total disbursements are inevitable in the future. No benefits should be promised or implied which cannot be safely financed not only in the early years of the program but when workers now young will be old.**

**VI. Sound presentation of the Government's financial position requires full recognition of the obligations implied in the entire old-age security program and Treasury reports should annually estimate**



**the load of future benefits and the probable product of the associated tax program.**

The council wishes to reiterate the necessity of taking full account of the greatly increasing costs of the old-age insurance program in future years. The council has kept this fact constantly in mind in its study of recommended revisions. It is of the belief that we should not commit future generations to a burden larger than we would want to bear ourselves. It is therefore important that Congress be kept fully informed of the obligations implied in the entire old-age security program in the years to come under both the assistance and the contributory insurance provisions of the Social Security Act.

**VII. The receipts of the taxes levied in title VIII of the law, less the costs of collection, should through permanent appropriation be credited automatically to an old-age insurance fund and not to the general fund for later appropriation to the account, in whole or in part, as Congress may see fit. It is believed that such an arrangement will be constitutional.**

**VIII. The old-age insurance fund should specifically be made a trust fund, with designated trustees acting on the behalf of the prospective beneficiaries of the program. The trust fund should be dedicated exclusively to the payment of the benefits provided under the program and, in limited part, to the costs necessary to the administration of the program.**

At the time the Social Security Act was drafted it was deemed necessary for constitutional reasons to separate legally the taxation and benefit features of the program. It is believed that in the light of subsequent court decisions such legal separation is no longer necessary. Since the taxes levied are essentially contributions intended to finance the benefit program, it is not only logical but expedient to provide for automatic crediting of tax proceeds to the old-age insurance fund. It is believed by the council that such a procedure would enhance public understanding of the contributory insurance system. Since the tax proceeds thus credited are intended for payment of benefits, it is recommended that they be deposited in a trust fund under the control of designated trustees in accordance with appropriate legal provisions. The trust fund should be dedicated to the payment of benefits and, to a restricted amount, to the costs necessary to the administration of the program. It is recommended that these funds should continue to be invested in securities of the Federal Government as at present.

In recommending these technical changes in the method of handling the contributions under the program, the council wishes to record again its unanimous conclusion that the provisions of the existing law have been strictly respected by Congress and the Treasury Department. It is believed, however, that the technical improvements here recommended will simplify and strengthen the financial provisions of the program.

**IX. The consideration of change in the tax schedule under title VIII of the law should be postponed until after the rates of 1½ percent each on employer and employee are in effect since information will not be available for some time concerning (a) tax collections under varying conditions, (b) effective coverage under taxes and benefits, (c) average**

covered earnings, period of coverage, time of retirement, and average amount of benefits, (d) the possibilities of covering farm labor, domestic employees or self-employed persons, and (e) the possibilities of introducing new types of benefits.

With these and many other variable elements now present in any estimate of the future costs of a revised program under title II, the majority of the council is not ready to recommend any change in the tax schedule under title VIII of the act at this time. It does not feel that it could determine intelligently or with proper caution any precise adjustment of rates. Nor is immediate change considered necessary since in any case the amount accumulated in the old-age insurance fund for some years will not exceed that deemed appropriate for the contingency fund previously recommended. In view of the probable increase in the immediate cash outlay to begin in 1940 which the council's recommendations of benefits will entail, it is conservative policy to continue the taxes now provided in the present act. It seems the part of wisdom to make changes, as warranted, on the basis of more certain knowledge.<sup>6</sup>

**X. The problem of the timing of the contributions by the Government, taking into account the changing balance between pay-roll-tax income and benefit disbursements, is of such importance as to require thorough study as information is available.**

The timing of the governmental contributions here proposed is particularly a question requiring further study on the basis of better knowledge.

**XI. Following the accumulation of such information, this problem should be restudied for report not later than January 1, 1942, as to the proper planning of the program of pay-roll taxes and governmental contributions to the old-age insurance system thereafter, since by that time experience on the basis of 5 years of tax collections and 2 years of benefit payments (provided the present act is amended to that effect) will be available. Similar studies should be made at regular intervals following 1942.**

After thorough canvassing of the problem, the council is of the conclusion that by the close of 1941 sufficiently comprehensive knowledge will be available for definitive recommendations on changes in the tax program, if then deemed appropriate, and for definitive recommendations as to the timing of governmental contributions toward the financing of the insurance system. By that time approximately 5 years of experience in tax collection under varying conditions will be available. Even more important, approximately 2 years of benefit experience under a revised program will have developed, if suggested revisions are made. Further change in the tax rates under the existing schedules will not take place until January 1, 1943.

At that time, the determination of the long-run philosophy as to the financing of the program will come to have significance in terms

<sup>6</sup> Several members of the council feel that the increase of 50 percent in the tax rate from 2 percent to 3 percent now provided by the law to be made in 1940 should be reconsidered. Unless the cost of the benefits payable in 1940 and 1941 shall exceed current income from the present 2-percent pay-roll tax, and in view of the probable size of the contingency fund on January 1, 1940, they feel that the increase in the tax rate should not take place before the study herein recommended to be made in 1941 shall have been completed. They believe that under the present conditions it would be better policy to allow the sum involved in the increase in the tax rate to remain in the hands of employees and employers than to use it to increase the contingency fund.

of tax rates. Discussion of such philosophy, while of great concern to all far-sighted students of fiscal policy, does not warrant departure from the recommendations on financial policy here presented.

The council has deemed it a privilege to cooperate in the study of the old-age security program carried on by the Senate special committee and the Social Security Board and hopes that its findings will be of service to the bodies which appointed it. While anxious to be of service as individuals, we assume that with the presentation of this report the task for which the council was appointed has been fulfilled.

Respectfully submitted.

(Signed) J. Douglas Brown, *Chairman*; Henry Bruère;  
G. M. Bugniazet; Paul H. Douglas; M<sup>l</sup> B. Folsom;  
Harvey Fremming; John P. Frey; W. D. Fuller;  
William Haber; Alvin H. Hansen; Jay Iglauer;  
M. Albert Linton; Theresa S. McMahon; Gerald  
Morgan; A. H. Mowbray; Philip Murray; Thomas  
L. Norton; Lee Pressman; Josephine Roche; E. R.  
Stettinius, Jr.; George W. Stocking; Gerard Swope;  
Elizabeth Wisner; Edwin E. Witte; Matthew Woll.

DECEMBER 10, 1938.

## APPENDIX

On April 29, 1938, the council unanimously approved the following statement concerning the financing of the old-age insurance system:

The Advisory Council on Social Security has been giving much attention to the problem of financing the old-age insurance system. The council recognizes that there are other ways of financing the old-age insurance system which upon further study may prove to have greater advantages than the present system. The entire subject, however, is so complex that the council is not yet prepared to express a final judgment as to the method of financing which would be most desirable from a social and economic standpoint.

Upon one aspect of the general problem the Advisory Council deems it advisable to make a public statement at this time to allay unwarranted fears. This relates to the method of handling the funds collected for old-age insurance purposes.

In accordance with the statutes, the taxes collected from employers and employees under title VIII of the Social Security Act are paid into the general fund of the Treasury. While not expressly provided by law, it was understood at the time of the enactment of the Social Security Act that amounts equivalent to the entire proceeds of these taxes, less costs of administration, shall be appropriated annually by Congress to the old-age reserve account. Congress has not only done so, but to date has appropriated somewhat more to the old-age reserve account than has been collected from the taxes levied in title VIII of the Social Security Act. Thus, up to the end of March 1938, \$636,100,000 had been invested to the credit of the old-age reserve account, and \$577,447,532 had been collected from the taxes for old-age insurance purposes.

A proportionate part of the moneys appropriated by Congress to the old-age reserve account has been turned over periodically to this account and has been immediately invested in special securities of the United States Government bearing 3 percent interest.

The special securities issued to the old-age reserve account are general obligations of the United States Government, which differ from other securities of the Government only in the higher rate of interest they bear and in the fact that they are not sold in the open market. The issuance of such special securities is not only expressly authorized by law, but is required by the provision of the Social Security Act that the old-age reserve funds are to be invested so as to yield an interest return of 3 percent.

The United States Treasury uses the moneys realized from the issuance of these special securities by the old-age reserve account in the same manner as it does moneys realized from the sale of other Government securities. As long as the budget is not balanced, the net result is to reduce the amounts which the Government has to borrow from banks, insurance companies and other private parties. When the budget is balanced, these moneys will be available for the reduction of the national debt held by the public. The members of the Advisory Council are in agreement that the fulfillment of the promises made to the wage earners included in the old-age insurance system depends upon, more than anything else, the financial integrity of the Government. The members of the council, regardless of differing views on other aspects of the financing of old-age insurance, are of the opinion that the present provisions regarding the investment of the moneys in the old-age reserve account do not involve any misuse of these moneys or endanger the safety of these funds.









RECOMMENDATIONS FOR  
SOCIAL SECURITY LEGISLATION

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THE REPORTS  
OF  
THE ADVISORY COUNCIL ON  
SOCIAL SECURITY  
TO THE  
SENATE COMMITTEE ON FINANCE



UNITED STATES  
GOVERNMENT PRINTING OFFICE  
WASHINGTON : 1949



[Submitted by Mr. MILLIKIN]

IN THE SENATE OF THE UNITED STATES,  
*June 19 (legislative day, June 15), 1948.*

*Ordered,* That reports of the Advisory Council on Social Security to the Committee on Finance, when submitted to the Secretary of the Senate subsequent to the proposed adjournment of the Senate, be printed as Senate documents with illustrations, and that thereafter a compilation of the various reports by such Advisory Council, with other relevant materials on the subject, be printed as a Senate document with illustrations.

Attest:

CARL A. LOEFFLER, *Secretary.*

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## LETTER OF TRANSMITTAL

DECEMBER 31, 1948.

HON. EUGENE D. MILLIKIN,  
*Chairman, Committee on Finance,*  
*United States Senate, Washington 25, D. C.*

DEAR SENATOR MILLIKIN: There is transmitted herewith a compilation of the four reports of the Advisory Council on Social Security to the Senate Committee on Finance containing recommendations for changes in social-security legislation. Each of these reports has previously been issued as a separate document: (1) Old-Age and Survivors Insurance (S. Doc. 149), (2) Permanent and Total Disability Insurance (S. Doc. 162), (3) Public Assistance (S. Doc. 204), and (4) Unemployment Insurance (S. Doc. 206).

The Council has studied the social-security programs and their implications carefully and has endeavored to take full account of the interests—both present and future—of all segments of the Nation. It is the hope of the Council that these reports will be of value to the Congress in bringing about necessary and desirable changes in the social-security programs.

I wish again to express my deep appreciation of the earnest and fine-spirited efforts of all members of the Council and particularly of the splendid work done by the Associate Chairman, Dr. Sumner H. Slichter. The work of the Council has been greatly facilitated by an efficient and cooperative staff working under the able direction of Robert M. Ball.

Respectfully submitted.

EDWARD R. STETTINIUS, Jr.,  
*Chairman, Advisory Council on Social Security.*



## SENATE RESOLUTION 141

(80th Cong., 1st sess., July 23, 1947)

*Resolved*, That the Committee on Finance, or any duly constituted subcommittee thereof, is authorized and directed to make a full and complete investigation of old-age and survivors insurance and all other aspects of the existing social-security program, particularly in respect to coverage, benefits, and taxes related thereto, for the purpose of assisting the Senate in dealing with legislation relating to social security hereafter originating in the House of Representatives under the requirement of the Constitution.

SEC. 2. For the purpose of this resolution, the Committee on Finance, or any duly constituted subcommittee thereof, is authorized to sit and act at such places and times during the sessions, recesses, and adjourned periods of the Eightieth Congress, to require by subpoena or otherwise the attendance of such witnesses and the production of such books, papers, and documents, to administer such oaths, to take such testimony, to procure such printing and binding, and to make such expenditures as it deems advisable.

SEC. 3. The committee is authorized to designate and appoint an Advisory Council to study, assist, consult with, and advise the Committee on Finance or its duly authorized subcommittee, and the committee is further authorized to designate and appoint such other officers, experts, or assistants as it deems necessary for the performance of the investigation directed by this resolution.

SEC. 4. The compensation of persons assisting the committee in the investigation directed by this resolution shall be fixed by the committee at such amounts or rates as the committee deems appropriate, but such amounts or rates shall not exceed the amounts or rates payable for comparable duties prescribed by the Classification Act of 1923, as amended.

SEC. 5. The committee, or its duly constituted subcommittee, is authorized, with the approval of the Committee on Rules and Administration, to request the use of the services, information, facilities, and personnel of the departments and agencies in the executive branch of the Government in the performance of its duties under this resolution.

SEC. 6. The expenses of the committee under this resolution, which shall not exceed \$25,000, shall be paid out of the contingent fund of the Senate upon vouchers signed by the chairman.

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## SENATE RESOLUTION 202

(80th Cong., 2d sess., February 20, 1948)

*Resolved*, That the limit of expenditures authorized under Senate Resolution 141, Eightieth Congress, agreed to July 23, 1947 (authorizing an investigation by the Committee on Finance of old-age and survivors insurance and other aspects of the social-security program), is hereby increased by \$25,000.

## FOREWORD

The Advisory Council on Social Security was appointed by the Committee on Finance of the United States Senate under authority of Senate Resolution 141. Members of the Council, citizens from various walks of life and representing different parts of the country, were appointed on September 17, 1947. Preliminary meetings to plan the work of the Council were held in October and November and, at the first meeting of the full Council held in Washington on December 4-5, 1947, an interim committee was designated to make a continuing study of the problems before the Council and to develop proposals to be considered by the Council as a whole. The full Council has held a total of seven 2-day meetings and the interim committee has had eight 1-day meetings.

The Council's four reports appear in this compilation in the order that they were prepared and transmitted to the Senate Committee on Finance. Part I covers old-age and survivors insurance; part II recommends the establishment of a permanent and total disability insurance program; part III relates to public assistance and maternal and child health and welfare services; and part IV relates to unemployment insurance and temporary disability insurance.

### PART I. OLD-AGE AND SURVIVORS INSURANCE

In some areas the present provisions of the old-age and survivors insurance program fail to provide basic security. The weaknesses of the existing program have been taken into consideration, and recommendations are made for ways to close the gaps in the protection now offered. Account has been taken also of changes that have occurred in our economy since 1939, when the general structure of the present program was adopted. Particular attention has been given to the problem of financing the program. The recommendations regarding the contribution rates recognize the need for a rate which is high enough to establish a reasonable relationship between contributions and benefits and which will increase gradually to the full amount necessary to support the future program, but not so large as to build up excessive amounts in the trust fund in the early years.

The recommendations on old-age and survivors insurance are designed to provide a program that will meet the present needs of the people without imposing too heavy a burden on the taxpayers of the future. The Council anticipates that still further revisions in the program will be needed as future events affect family life, the labor force, and the general conditions under which people live.

### PART II. PERMANENT AND TOTAL DISABILITY INSURANCE

The recommendations on disability insurance are designed to provide benefits for permanently and totally disabled workers through

the extension of the present system of old-age and survivors insurance to cover the risk of disability. The Advisory Council has found that one of the few major areas in which the Nation lacks social-insurance protection is the area of need and dependency arising out of permanent and total disability. The possibility of total income loss and eventual exhaustion of all personal resources because of such disability is of grave concern to every individual, his family, and the community.

Two members of the Council oppose the inclusion of the risk of total and permanent disability under social insurance but favor providing disability protection through the addition of a new category to the present State-Federal assistance program. (See appendix II-B.)

### PART III. PUBLIC ASSISTANCE

This section of the compilation includes recommendations for modifying the existing State-Federal programs—old-age assistance, aid to dependent children, and aid to the blind—and for the establishment of a State-Federal general assistance program for needy persons not currently covered by any State-Federal public assistance program. No recommendations are made for changes in the provisions of title V of the Social Security Act relating to maternal and child health, services for crippled children, and child welfare services; the Council recommends, however, that a special commission be appointed to study and report on these programs.

The recommendations on public assistance are limited to the changes in the Federal law that the Council considers necessary to help the States correct the weaknesses in their programs. The Council does not propose basic changes in the present State-Federal division of responsibility under which the administration of the program is entirely in the hands of the States and Territories, subject to certain minimum Federal standards relating to the definition of need and other conditions of eligibility and to certain aspects of administration. Beyond these minimum standards, the States have wide discretion in determining who is eligible for assistance and in administering the programs.

The Council has not made a detailed study of the policies and administrative practices of the various States and Territories but rather, accepting the desirability of considerable State discretion in determining standards and policies, has confined itself to a consideration of the Federal role. The wide differences among the States in the proportion of population receiving public assistance and in the amount of their payments indicate not only great differences in the need to be met but differences in the definition of need and in the administration of the programs. The Congress may wish to inform itself further concerning the effects of Federal grants-in-aid upon the policy decisions and administrative practices of the States. The Council, in studying the Federal part of the program, has found indications of a number of inadequacies and of several opportunities to improve and strengthen the Federal role in this State-Federal program.

In making its recommendations, the Council has been guided by the conviction that social security should be provided insofar as possible through insurance rather than through assistance. Its recommendations with respect to public assistance, therefore, presuppose that the essential recommendations contained in parts I, II, and IV,

of this compilation on old-age and survivors insurance, permanent and total disability insurance, and unemployment insurance will be enacted into law.

#### PART IV. UNEMPLOYMENT INSURANCE

The recommendations in this section of the compilation are designed to improve the existing State-Federal system of unemployment insurance by (1) extension of coverage, (2) removing some of the present barriers to more adequate benefit provisions and providing for adequate benefit financing, (3) making more rational the relationship of the rate of contribution to the cyclical movements of business, (4) improving the methods and financial basis of administration, and (5) increasing employee and citizen participation in the program.

Five members of the Council favor the establishment of a single national system of unemployment insurance (see appendix IV-C). It should be noted, however, that four of these members would join with the majority in supporting the recommendations in this report for the improvement of the State-Federal system should the Congress decide against the establishment of a national program.

#### ACKNOWLEDGMENTS

The Council was greatly facilitated in its work by the generous assistance given by many public and private agencies and interested individuals. Information received from Members of Congress and in letters from the general public was particularly helpful.

Organizations and individuals most familiar with each specific area of the Council's investigation furnished technical service and advice. Among those giving such aid were the Social Security Administration and its Bureaus of Old-Age and Survivors Insurance, Employment Security, Public Assistance, and Children's Bureau; the Treasury Department; the American Public Welfare Association; the Interstate Conference of Employment Security Agencies; the Council of State Governments; the American Association for the Blind and the National Federation of the Blind; representatives of commercial insurance companies; the Russell Sage Foundation; and a number of State and local public welfare and unemployment insurance administrators. The Council and its staff would have been greatly hampered in its work had it not been for the valuable assistance rendered by these groups and individuals.





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## PART I

# OLD-AGE AND SURVIVORS INSURANCE

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### INTRODUCTION AND SUMMARY

Opportunity for the individual to secure protection for himself and his family against the economic hazards of old age and death is essential to the sustained welfare, freedom, and dignity of the American citizen. For some, such protection can be gained through individual savings and other private arrangements. For others, such arrangements are inadequate or too uncertain. Since the interest of the whole Nation is involved, the people, using the Government as the agency for their cooperation, should make sure that all members of the community have at least a basic measure of protection against the major hazards of old age and death.

In the last analysis the security of the individual depends on the success of industry and agriculture in producing an increasing flow of goods and services. However, the very success of the economy in making progress, while creating opportunities, also increases risks. Hence, the more progressive the economy, the greater is the need for protection against economic hazards. This protection should be made available on terms which reinforce the interest of the individual in helping himself. A properly designed social-security system will reinforce the drive of the individual toward greater production and greater efficiency, and will make for an environment conducive to the maximum of economic progress.

#### *The Method of Social Insurance*

The Council favors as the foundation of the social-security system the method of contributory social insurance with benefits related to prior earnings and awarded without a needs test. Differential benefits based on a work record are a reward for productive effort and are consistent with general economic incentives, while the knowledge that benefits will be paid—irrespective of whether the individual is in need—supports and stimulates his drive to add his personal savings to the basic security he has acquired through the insurance system. Under such a social insurance system, the individual earns a right to a benefit that is related to his contribution to production. This earned right is his best guaranty that he will receive the benefits promised and that they will not be conditioned on his accepting either scrutiny of his personal affairs or restrictions from which others are free.

Public-assistance payments from general tax funds to persons who are found to be in need have serious limitations as a way of maintaining family income. Our goal is, so far as possible, to prevent dependency through social insurance and thus greatly reduce the need for assistance. We recognize that, for a decade or two, public assist-



ance will be necessary for many persons whose need could have been met by the insurance program if it had been in effect for a longer time and had covered all persons gainfully employed. The Council looks forward, however, to the time when virtually all persons in the United States will have retirement or survivorship protection under the old-age and survivors insurance program. If insurance benefits are of reasonable amount, public assistance will then be necessary only for those aged persons and survivors with unusual needs and for the few who, for one reason or another, have been unable to earn insurance rights through work. Under such conditions the Federal expenditure for public assistance can be reduced to a small fraction of its present amount.

The Council has studied the existing system of old-age and survivors insurance and unanimously approves its basic principles. The Council, however, finds three major deficiencies in the program:

1. Inadequate coverage—only about three out of every five jobs are covered by the program.

2. Unduly restrictive eligibility requirements for older workers—largely because of these restrictions, only about 20 percent of those aged 65 or over are either insured or receiving benefits under the program.

3. Inadequate benefits—retirement benefits at the end of 1947 averaged \$25 a month for a single person.

The Council's recommendations are designed to remedy these major defects.

The Council has agreed unanimously on 20 of its 22 specific recommendations. The two instances of dissenting opinions have been noted in connection with the recommendations themselves, and the reasons for the dissents have been given in appendixes I-E and I-F.

### ***Summary of Recommendations***

1. *Self-employment.*—Self-employed persons such as business and professional people, farmers, and others who work on their own account should be brought under coverage of the old-age and survivors insurance system. Their contributions should be payable on their net income from self-employment, and their contribution rate should be  $1\frac{1}{2}$  times the rate payable by employees. Persons who earn very low incomes from self-employment should for the present remain excluded.

2. *Farm workers.*—Coverage of the old-age and survivors insurance system should be extended to farm employees.

3. *Household workers.*—Coverage of the old-age and survivors insurance system should be extended to household workers.

4. *Employees of nonprofit institutions.*—Employment for nonprofit institutions now excluded from coverage under the old-age and survivors insurance program should be brought under the program, except that clergymen and members of religious orders should continue to be excluded.

5. *Federal civilian employees.*—Old-age and survivors insurance coverage should be extended immediately to the employees of the Federal Government and its instrumentalities who are now excluded from the civil-service retirement system. As a temporary measure designed to give protection to the short-term Government worker, the wage credits of all those who die or leave Federal employment with less than 5 years'

service should be transferred to old-age and survivors insurance. The Congress should direct the Social Security Administration and the agencies administering the various Federal retirement programs to develop a permanent plan for extending old-age and survivors insurance to all Federal civilian employees, whereby the benefits and contributions of the Federal retirement systems would supplement the protection of old-age and survivors insurance and provide combined benefits at least equal to those now payable under the special retirement systems.

6. *Railroad employees.*—The Congress should direct the Social Security Administration and the Railroad Retirement Board to undertake a study to determine the most practicable and equitable method of making the railroad retirement system supplementary to the basic old-age and survivors insurance program. Benefits and contributions of the railroad retirement system should be adjusted to supplement the basic protection afforded by old-age and survivors insurance, so that the combined protection of the two programs would at least equal that under the Railroad Retirement Act.

7. *Members of the armed forces.*—Old-age and survivors insurance coverage should be extended to members of the armed forces, including those stationed outside the United States.

8. *Employees of State and local governments.*—The Federal Government should enter into voluntary agreements with the States for the extension of old-age and survivors insurance to the employees of State and local governments, except that employees engaged in proprietary activities should be covered compulsorily.

9. *Social security in island possessions.*—A commission should be established to determine the kind of social-security protection appropriate to the possessions of the United States.

10. *Inclusion of tips as wages.*—The definition of wages as contained in section 209 (a) of the Social Security Act, as amended, and section 1426 (a) of subchapter A of chapter 9 of the Internal Revenue Code should be amended to specify that such wages shall include all tips or gratuities customarily received by an employee from a customer of an employer.

11. *Insured status.*—To permit a larger proportion of older workers, particularly those newly covered, to qualify for benefits, the requirements for fully insured status should be 1 quarter of coverage for each 2 calendar quarters elapsing after 1948 or after the quarter in which the individual attains the age of 21, whichever is later, and before the quarter in which he attains the age of 65 (60 for women) or dies. Quarters of coverage earned at any time after 1936 should count toward meeting this requirement. A minimum of 6 quarters of coverage should be required and a worker should be fully and permanently insured if he has 40 quarters of coverage. In cases of death before January 1, 1949, the requirement should continue to be 1 quarter of coverage for each 2 calendar quarters elapsing after 1936 or after the quarter in which the age of 21 was attained, whichever is later, and before the quarter in which the individual attained the age of 65 or died.

12. *Maximum base for contributions and benefits.*—To take into account increased wage levels and costs of living, the upper limit on earnings subject to contributions and credited for benefits should be raised from \$3,000 to \$4,200. The maximum average monthly wage

used in the calculation of benefits should be increased from \$250 to \$350.

13. *Average monthly wage.*—The average monthly wage should be computed as under the present law, except that any worker who has had wage credits of \$50 or more in each of six or more quarters after 1948 should have his average wage based either on the wages and elapsed time counted as under the present law or on wages and elapsed time after 1948, whichever gives the higher result.

14. *Benefit formula.*—To provide adequate benefits immediately and to remove the present penalty imposed on workers who lack a lifetime of coverage under old-age and survivors insurance, the primary insurance benefit should be 50 percent of the first \$75 of the average monthly wage plus 15 percent of the remainder up to \$275. Present beneficiaries, as well as those who become entitled in the future, should receive benefits computed according to this new formula for all months after the effective date of the amendments.

15. *Increased survivor protection.*—To increase the protection for a worker's dependents, survivor benefits for a family should be at the rate of three-fourths of the primary insurance benefit for one child and one-half for each additional child, rather than one-half for all children as at present. The parent's benefit should also be increased from one-half to three-fourths. Widows' benefits should remain at three-fourths of the primary insurance benefit.

16. *Dependents of insured women.*—To equalize the protection given to the dependents of women and men, benefits should be payable to the young children of any currently insured woman upon her death or eligibility for primary insurance benefits. Benefits should be payable also (a) to the aged, dependent husband of a primary beneficiary who, in addition to being fully insured, was currently insured at the time she became eligible for primary benefits, and (b) to the aged, dependent widower of a woman who was fully and currently insured at the time of her death.

17. *Maximum benefits.*—To increase the family benefits, the maximum benefit amount payable on the wage record of an insured individual should be three times the primary insurance benefit amount or 80 percent of the individual's average monthly wage, whichever is less, except that this limitation should not operate to reduce the total family benefits below \$40 a month.

18. *Minimum benefit.*—The minimum primary insurance benefit payable should be raised to \$20.

19. *Retirement test.*—No retirement test (work clause) should be imposed on persons aged 70 or over. At lower ages, however, the benefits to which a beneficiary and his dependents are entitled for any month should be reduced by the amount in excess of \$35 which he earns from covered employment in that month. Benefits should be suspended for any month in which such earnings exceed \$35 but, each quarter, beneficiaries should receive the amount by which the suspended benefits exceeded earnings above the exemption.

20. *Qualifying age for women.*—The minimum age at which women may qualify for old-age benefits (primary, wife's, widow's, parent's) should be reduced to 60 years.

21. *Lump-sum benefits.*—To help meet the special expenses of illness and death, a lump-sum benefit should be payable at the death of



every insured worker even though monthly survivor benefits are payable. The maximum payment should be four times the primary insurance benefit rather than six times as at present.

22. *Contribution schedule and Government participation.*—The contribution rate should be increased to 1½ percent for employers and 1½ percent for employees at the same time that benefits are liberalized and coverage is extended. The next step-up in the contribution rate, to 2 percent on employer and 2 percent on employee, should be postponed until the 1½-percent rate plus interest on the investments of the trust fund is insufficient to meet current benefit outlays and administrative costs. There are compelling reasons for an eventual Government contribution to the system, but the Council feels that it is unrealistic to decide now on the exact timing or proportion of that contribution. When the rate of 2 percent on employers and 2 percent on employees plus interest on the investments of the trust fund is insufficient to meet current outlays, the advisability of an immediate Government contribution should be considered.

### ***Technical and Minor Amendments***

In addition to these major recommendations, several minor and technical amendments are needed to correct certain inequities and administrative problems resulting from the present provisions. The Council has preferred in the main to leave recommendations on such questions to the Social Security Administration. The Council would like to call attention, however, to the need for additional adjustments to protect the rights of men who served in World War II. Our general recommendations, if put into effect, would remove most of the inequities which these veterans would otherwise suffer; but, in addition, section 210<sup>1</sup> of the present act should be temporarily extended to protect veterans during the transitional period until our general recommendations become fully operative. The Council also wishes to call attention to the lack of coverage for American citizens employed outside the United States by American firms.

### ***Interdependence of Recommendations***

The Council stresses the fact that its recommendations are a consistent whole and that many of the 22 specific proposals are interdependent. If coverage is not broadly extended, for example, the Council would propose very different modifications in the present provisions for insured status, benefit structure, method of determining the average monthly wage, and financing. Accordingly, the Council strongly urges that its recommendations be considered as a whole.

### ***Plan of the Report***

The Council's proposed remedies for the three major deficiencies of the present program—inadequate coverage, unduly restrictive eligibility requirements, and inadequate benefits—are outlined in this section. The test of retirement, financing, and the importance of a broad informational program are also discussed. The section which follows treats the 22 specific recommendations in more detail. Appendixes I-A and I-B are concerned with special aspects of costs and financing.

<sup>1</sup> Section 210 provides special survivor benefits to dependents of veterans who died within 3 years of discharge if such dependents are not entitled to survivor benefits under veterans' laws.



### ***Goal of Universal Coverage***

The basic protection afforded by the contributory social insurance system under the Social Security Act should be available to all who are dependent on income from work. The character of one's occupation should not force one to rely for basic protection on public assistance rather than insurance.

Earlier decisions to exclude the self-employed, workers in agriculture, and workers in domestic service from coverage of the insurance system were based on expectation that there would be administrative difficulties in collecting contributions and obtaining wage reports for these groups. Other groups such as railroad workers, government employees, and employees of religious, charitable, and educational institutions were excluded for various reasons—because some of the workers were protected under existing retirement plans, because of the constitutional barrier to the levy of a Federal tax on State and local governments, or because of objections to taxing traditionally tax-exempt nonprofit organizations.

The Council believes that none of the reasons for the original exclusions justifies continued denial of basic social insurance protection to these groups. The administrative difficulties which may arise from including the self-employed and workers in agriculture and domestic service seem far less formidable today than they did 10 years ago when the social insurance system was new and in the early stages of developing its administrative organization.

Ten years' experience with incomplete coverage has revealed the many inequities and anomalies which arise when workers move between covered and noncovered employments. In many cases these workers pay contributions but never receive benefits, and in others they may become entitled to benefits which, though small, are worth far more in relation to their contributions than are the benefits of workers covered regularly.

The present incomplete system of social insurance affords uneven protection in different parts of the United States. Coverage restrictions cause relatively fewer people to receive old-age and survivors insurance benefits in agricultural States than in States where industry predominates. Conversely, the number of persons receiving old-age assistance per 1,000 aged population is considerably larger in the agricultural States (see appendix I-C). As a consequence, the taxpayers of the agricultural States must meet, from general revenues, a disproportionate share of the costs of old-age security and aid to families of workers who die prematurely. Since the per capita income of most predominantly agricultural States is far below that of the largely industrial and commercial States, the former have relatively more people in need of assistance and smaller revenues from which to meet this need.

Employers as well as employees suffer from the lack of protection for the noncovered occupations, because employers offering noncovered jobs cannot furnish as attractive labor conditions as those of their competitors in the labor market who are in covered industries. Some workers who have been protected by social insurance during the war have been unwilling to return to such noncovered jobs as agriculture or domestic work or work in nonprofit organizations, where they will lose that protection.

An incidental but important result of extension of coverage will be a reduction in the percentage of pay rolls required to meet the costs of old-age and survivors insurance. Extension of coverage would increase the revenue of the program more than it increases benefit payments. The net saving would be roughly one-half percent to 1 percent of pay roll under the present provisions. Under a program of liberalized benefits such as we recommend, costs would, of course, be increased, but under such a program the net saving as a result of the extension of coverage would also be increased—possibly to as much as 2 percent of pay roll. The saving occurs in the main because under the present limited coverage system, those who move in and out of covered employment have low average monthly wages in covered employment and receive the advantage of a formula weighted in favor of those with low average wages. Under extended coverage such persons will have to pay contributions on all the wages which they earn, and although their benefits will be increased, they will be increased at the lower rate of the formula (the present formula pays 40 percent of the first \$50 of average monthly wage, but only 10 percent above) and the income to the fund will increase more than the claims against it.

There are no immediate obstacles to extension of coverage to the self-employed, farm employees, workers in domestic service, employees of nonprofit institutions, the armed forces, and employees of State and local governments. Accordingly, the Council recommends that coverage be extended to these groups without delay. A similar recommendation applies to the Federal civilian employees who are not under the civil-service retirement system. Extension of coverage to Federal civilian employees who are subject to the Federal retirement plan and to the employees of the railroads, however, requires solution of various technical problems before legislation is enacted. The civil-service retirement system and the railroad retirement system will have to be modified to take into account the protection which would be afforded by coverage under old-age and survivors insurance. The Council believes that the best way to work out these problems is through joint studies by the Social Security Administration and the Civil Service Commission in the case of Federal civilian employees, and the Social Security Administration and the Railroad Retirement Board in the case of the railroad employees. The Council has recommended that the necessary studies be required by Congress. Extension of coverage to types of employment with existing staff retirement systems or compulsory insurance protection can and should be accomplished without any loss of benefits to the workers regularly covered by these systems. This result can be achieved by making their present special pension plans supplementary to old-age and survivors insurance.

Since the present civil-service retirement plan and railroad retirement system now give more protection to those regularly covered than would old-age and survivors insurance, the question may be asked: "Why extend old-age and survivors insurance to Federal civil-service employees or to railroad workers?" This question is discussed under the specific recommendations in the Council's report. In essence, the answer is that some workers, particularly short-service workers and those who move in and out of Federal or railroad employ-

ment, are inadequately protected under present arrangements. An extension of coverage would help these workers without reducing the combined protection available for long-service workers. In addition, if the Council's recommendation for an eventual Government contribution were followed, an extension of coverage would mean that these employers and employees would pay less for that protection.

### ***Limitations of Voluntary Methods***

Voluntary coverage under old-age and survivors insurance has been suggested. In the opinion of the Council, voluntary coverage is defensible only where the Federal Government cannot under the Constitution apply compulsion. Since it is apparently unconstitutional for the Federal Government to tax the States and localities, we believe it necessary to allow these units to enter into voluntary compacts for the coverage of their employees. We are convinced that to offer voluntary coverage in any area where it can possibly be avoided would be a grave mistake.

Since the chief objective of the old-age and survivors insurance program is basic family protection adequate for the needs that can be presumed to exist in various family situations, the program contains eligibility and benefit provisions which, especially in the early years of operation and in the case of workers with large families, allow for the payment of benefits considerably in excess of the value of contributions. These provisions make the program vulnerable if voluntary participation by individuals is allowed. The "adverse selection" which would occur would have serious effects on the program's solvency.

Voluntary participation by employing organizations would have less serious but still highly undesirable effects. The organizations most likely to participate in an elective program would be those whose employees as a group would stand to gain disproportionately large benefits in return for their contributions, such as organizations largely made up of persons nearing retirement age or men with large families. Furthermore, many employers in the groups now excluded employ only a few persons. The smaller the staff, the greater the probabilities that the distribution of employees by age, sex, and family dependents will differ from the distribution which obtains among the employee population as a whole and therefore the greater are the possibilities of adverse selection. Under a voluntary system, the employers who pay the lowest wages and whose employees consequently may be in greatest need of protection would be least likely to elect coverage.

The history of voluntary social insurance indicates that those who most need the protection seldom participate. Usually the persons who choose to participate are those who can expect a large return for their contributions and who can easily spare the money. We see no justification whatever in offering insurance protection at extreme bargain rates to a select group, consisting primarily of those who recognize the opportunity for a bargain and are well able to take advantage of it, and in requiring the covered group as a whole to bear the cost of the difference between what the select group pays and what it receives.

### ***More Liberal Eligibility Requirements for Older Workers***

Old-age and survivors insurance now offers basic retirement protection to the majority of younger workers, but many of those in the



middle and higher-age groups will not be eligible for benefits when they retire. The worker who is now young and has a whole working lifetime of some 40 years ahead has ample opportunity to build up credits toward meeting the present eligibility requirements. Older workers, however, have only relatively limited opportunity to build up such credits, and many fail to qualify who would have done so had the program come into existence when they were young. The Council believes that, in establishing eligibility requirements, special allowance should be made for those who were already at the higher ages when the system began. Liberalization of the present eligibility requirements is made even more necessary if coverage is extended. As a group, newly covered workers will have had no opportunity to build up credits in the past and, unless some change is made in the requirements, very few of the older workers in the newly covered groups would ever be eligible for retirement benefits.

If the effectiveness of the social-insurance method of meeting income loss in old age is not to be unduly postponed, the period of covered employment required for insured status will have to be substantially reduced. It should not, of course, be reduced so far as to endanger the character of the benefit as an earned right based on contributions and work records. We propose as a method of reducing the requirements for insured status a "new start" which will require the same qualifying period for an older worker now as was required for a person who was the same age when the system began operation. As pointed out in the report which follows, this recommendation is contingent on a broad extension of coverage.

### ***More Adequate Benefits Now***

The benefit amounts now being paid under the old-age and survivors insurance program are inadequate for the security of most of the beneficiaries. At the end of 1946 the average benefit for a retired male worker alone was \$24.90 a month, the average benefit for a retired man and wife was \$39, and the average family benefit for a widow and two children was \$48.20. If the old-age and survivors insurance program is to do an effective job of insuring gainfully occupied individuals and their families against dependency in the old age or on the death of a family breadwinner, the level of benefits must be raised.

Under the present program, benefits are computed as a basic amount which is increased by 1 percent for each year in which the wage earner received \$200 or more in wages. Full-rate benefits, under this system of computation, will not be paid until after 1980, when those now young will be able to retire on benefits some 40 percent larger than the basic amounts payable at the beginning of the system's operation.

The Council believes that the primary benefit should be 50 percent of the first \$75 of the average monthly wage and 15 percent of the remainder up to the maximum average monthly wage (\$350 a month) that can be counted toward benefits. Under this formula, the full rate of benefits contemplated for the future would be paid at once and the 1-percent increment would be eliminated. Without the increment, which commits the system to an automatically increasing level of benefits, a higher level of benefits can be paid immediately than would be warranted under a formula such as that in the present law.

Our proposed benefit formula was chosen because it combines the advantages of relatively high benefits in the low-wage brackets with



a considerable spread of benefit amounts for the middle- and higher-wage levels.

In addition to the revision in the benefit formula, several other changes we recommend would have the effect of making benefits more adequate. Extension of coverage will achieve this result for those who move in and out of the employments now covered, since their future benefits will be based on all their earnings up to the maximum base rather than only on those earned in certain types of employment. By reducing the age of eligibility for women from 65 to 60, benefits payable to a family consisting of a primary beneficiary and his wife aged 60 to 64 would be increased immediately by 50 percent. By raising the base for computation of benefits from the present \$3,000 to \$4,200, the benefits for workers at the higher-wage levels will be increased somewhat in the near future and to a greater extent as additional years elapse—an increase for which in a mature program these workers will have paid by additional contributions. An increase in benefits would also result from our recommendation for basing benefits solely on wages earned after 1948 if such wages result in a higher average monthly wage than that derived from all wages earned under the program. After this “new start” provision becomes effective, the over-all effect of our recommendations would be to increase the benefit currently awarded a retired male worker alone from the present average of about \$25 a month to an average of about \$55. An average benefit for man and wife would be about \$85 a month, and the average family benefit for a widow and two children would be about \$110. These amounts are higher than those which would be paid under the proposed formula before the new start becomes effective.

### ***Test of Retirement***

The rapidly increasing number of aged in the population has made the Council conscious of the need for modification of the present retirement test, which prevents the payment of benefits to all who earn \$15 a month or more in covered employment. Since the time of the passage of the original act, the number of persons aged 65 and over has risen from somewhat more than 7.8 million to nearly 11 million. In another 25 years there may be nearly 20 million aged persons in the United States. In these circumstances it is particularly important that the aged make the contribution to production of which they are capable.

Most aged persons, it is true, do not retire voluntarily. Generally speaking, those who retire do so at the will of the employer or because they are unable to work. The existence of a work clause in old-age and survivors insurance probably has little effect on this basic fact, since few people are likely to give up full-time jobs because of the availability of old-age and survivors insurance benefits. The present very restrictive work clause, however, probably discourages some of those who have retired from their regular jobs from making such contribution to production as they are capable of making. We have therefore suggested liberalizations in the retirement test which will remove some of the barriers to gainful activity on the part of beneficiaries.

The Council believes that further study of the broad problem of the aged in our society is desirable. We recommend that the Federal

Government establish a commission to undertake such a study. We have in mind particularly consideration of employment opportunities for the aged, their adjustment to retirement, the availability of recreational facilities, housing for the aged, care for the chronically ill, and other services. The maintenance of income for those who have retired is only part of the provision of security for the aged.

### ***Financing***

A primary consideration in evaluating proposals for social security benefits must be the impact of their present and future costs on the Nation's economy. The recommendations of the Council for changes in benefits and in coverage have been made only after careful consideration of the probable costs and the method for financing them. The Council, however, would be less than frank if it failed to stress the difficulties of estimating the ultimate cost of the system. Appendix I-B of this report deals with the problem of estimating costs and discusses in some detail the nature and purpose of long-range cost estimates.

Exactly what future costs will be will depend on a number of factors that are more or less uncertain—the proportion of men and women in covered employment who will reach the age of retirement, the proportion of persons reaching the age of retirement who will have fully insured status, the proportion of persons eligible for benefits who will elect to work rather than retire, and the length of time retired persons will draw benefits. Similar questions arise in connection with survivorship benefits.

In setting the contribution rates for the system, the essential question is probably not "What percentage of pay roll would be required at some distant time to pay benefits equal to the money amount provided in the Council's recommendations?" Rather it is "What percentage of pay roll will be required to pay benefits representing about the same proportion of future monthly earnings that the benefits recommended by the Council represent of present monthly earnings?" If past trends continue, monthly wage earnings several decades hence will be considerably larger than those of today, and benefits will probably be revised to take these increased wages into account. The long-range estimates presented by the Council, however, disregard the possibility of increases in wage levels and state the costs of the proposed benefits as a percentage of the pay rolls based on continuation of the wage levels of the last few years. If increasing wage levels had been assumed, the costs of these benefits as a percentage of pay rolls would be lower than those presented. Use of the level-wage assumption, therefore, has the effect of allowing for liberalizations of benefits to keep pace with any increases in wages and pay rolls which may occur. If wages continue to rise and such liberalizations are not made, these estimates overstate the cost as a percentage of pay roll and a contribution rate based on them would be too high.

The percentage-of-pay-roll figures are the most important measure of the financial effort required to support the system and are the basis for determining ultimate contribution rates. Dollar figures taken alone are misleading. For example, extending coverage to groups now excluded would greatly increase the dollar costs because more people would become eligible for benefits, but as indicated earlier it will actually decrease the cost as a percentage of pay roll. As a result of

coverage extension the income of the insurance system will be increased more than the outgo. In appendix I-B, however, we have included both the dollar figures and the percentage-of-pay-roll figures.

As indicated in appendix I-B, the percentage of pay roll required to maintain the relationship between benefits and monthly earnings recommended by the Council would average somewhere between 4.9 percent and 7.3 percent of covered pay roll under a system of nearly universal coverage. The cost in the early years of the system is much lower than it will be when those attaining age 65 have had a working lifetime under the program in which to gain insured status. By that time, the number of persons over age 65 will be much larger than at present and a much larger proportion of the aged population will be eligible for benefits. Our estimates show that the cost of the expanded plan in 1955 will probably be between 2.4 percent and 3.1 percent of pay rolls. In the year 2000 a program which maintains the same relationship between benefits and monthly earnings as the program now being recommended by the Council might cost from 5.9 percent to 9.7 percent of pay rolls. These costs are well within the range of costs expected for the program adopted in 1935 and for the amended program of 1939. Our recommendations therefore do not make necessary any increase in contribution rates over those contemplated from the beginning.

Appendix I-B also contains an estimate of what the Council's proposals would cost now as a percentage of covered pay rolls under a nearly universal system, had the Council's recommendations been in effect over the last 100 years. These estimates are included to give a sense of what these recommendations would mean if they were now fully operative. Using the estimate of the actual wages paid over the last 100 years, such a system would cost this year from 2.4 percent to 3.0 percent of pay rolls. If it were assumed that the benefits being paid now under such a system were based on current wage levels rather than past wages, such a system would cost this year from 4.1 percent to 4.9 percent. These figures are lower than the estimates for the future, largely because the number of old people will be much greater in the future than now.

### ***Contribution Rate***

The Council believes that, at the time benefits are liberalized, the contribution rate should be raised to 1½ percent for both employees and employers. The present 1-percent rate has remained unchanged for more than 10 years. The longer it remains unchanged, the greater the danger that the public will fail to appreciate that in the long run there must be a close relationship between contributions and benefits. It is also desirable to achieve the increase in contribution rates to the level which will eventually be necessary by gradual and more or less evenly spaced changes. Even at the present level of benefits, contributors pay but a fraction of the actuarial value of the benefits to which they are entitled. If benefits and eligibility requirements are changed as the Council recommends, current contributions will bear an even smaller ratio to the actuarial value of benefits. For these reasons, the Council believes that the contribution rate should be increased when benefits are liberalized.

An incidental effect of the recommendation just outlined is that the trust fund will continue to increase for a number of years. Changes



in the size of the trust fund, whether increases or decreases, may present certain problems of fiscal policy, the character of which will depend on prevailing economic conditions. The Council does not believe that the short-range increases in the trust fund which will result from its recommendations will confront the Government with fiscal problems that cannot be readily handled. We favor, however, keeping this excess of income over outgo as low as is consistent with public understanding that in the long run there must be a close relationship between benefits and contributions. We believe that the second step-up in the tax rate, to 2 percent on employer and 2 percent on employee, should not take place until actually needed to cover current disbursements.

### ***Government Participation***

The Council believes that old-age and survivors insurance should be planned on the assumption that general taxation will eventually share more or less equally with employer and employee contributions in financing future benefit outlays and administrative costs. Under our recommendations, the full rate of benefits will be paid to those who retire during the first two or three decades of operation even though they pay only a fraction of the cost of their benefits. In a social insurance system, it would be inequitable to ask either employers or employees to finance the entire cost of liabilities arising primarily because the act had not been passed earlier than it was. Hence, it is desirable for the Federal Government, as sponsor of the program, to assume at least part of these accrued liabilities based on the prior service of early retirants. A Government contribution would be a recognition of the interest of the Nation as a whole in the welfare of the aged and of widows and children. Such a contribution is particularly appropriate in view of the relief to the general taxpayer which should result from the substitution of social insurance for part of public assistance.

The Council has suggested that the introduction of the Government contribution be considered when the 2 percent rate for employer and employee plus interest on the trust fund is insufficient to meet current costs. If the Government contribution is delayed beyond the point at which costs begin to exceed 4 percent, the result might well be that the contribution would never be as much as one-third of eventual benefit outlays, because under our low-cost estimates, the annual cost of the benefits never exceeds 6 percent of pay roll even though under the high estimates the cost reaches 9.7 percent.

### ***Purchasing Power of Benefits***

For millions of persons the social security system represents a guaranty of future security. If that guaranty is to be valid and meaningful, the purchasing power of benefits must not be destroyed by large increases in price levels. A special obligation rests on the Government and all groups in the community with an interest in the social-insurance system and in the security it offers to make sure that monetary policies, price policies, and wage policies contribute to the objective of preventing such a large rise in the price level. If the people of the United States are unable to prevent steep increases in price levels, benefits will have to be readjusted to preserve their purchasing power for unless the purchasing power of the benefits is pre-



served, the security guaranteed by the social-insurance plan will be illusory.

***Importance of a Broad Informational Program***

The Council recommends a broad informational program to give publicity to any new amendments passed by the Congress. Under old-age and survivors insurance, contributors have established an equity in the trust fund. The Government as trustee has an obligation to inform the beneficiaries of their rights. The reporting and tax provisions as well as the benefit provisions will affect millions heretofore outside the scope of the law; unless they are fully informed of the duties they must now assume, records will be incomplete and the resulting confusion may tend to defeat the purpose of the extended protection. No social-security program can be effective unless those who are entitled to participate know their rights and obligations.

## RECOMMENDATIONS ON COVERAGE

### 1. Self-Employment

*Self-employed persons such as business and professional people, farmers, and others who work on their own account should be brought under coverage of the old-age and survivors insurance system. Their contributions should be payable on their net income from self-employment, and their contribution rate should be 1½ times the rate payable by employees. Persons who earn very low incomes from self-employment should for the present remain excluded*

The self-employed—business and professional people, farmers, and others who work on their own account—represent more than one-third of all persons in jobs now excluded from coverage and constitute by far the largest single group denied the protection of the system. They include about 6 million persons in urban self-employment and perhaps 5 million farmers, though the number of individuals actively engaged in farm operation as a business is probably only about 3.5 million.<sup>2</sup>

The desirability of extending coverage to the self-employed has long been generally acknowledged. Their need for the basic protection afforded by old-age and survivors insurance is as great as that of the groups now covered and, like persons in all other excluded groups, they move back and forth between covered and noncovered work. The Advisory Council of 1937–38 recommended extension of coverage to the self-employed as soon as administratively feasible plans could be worked out; since then, the issue has been largely one of administration.

The fact that almost all full-time and a large proportion of part-time self-employed persons have for the last few years been required to file income-tax returns has radically changed the outlook for extending coverage to this group. It has been demonstrated that income reports can be obtained from the great majority of the self-employed, and it is now apparent that the coverage of the insurance system can be extended to them by tying in a self-reporting system for social insurance with the income tax. Certain items now reported for income-tax purposes can be used as the contribution base for old-age and survivors insurance and entered on a social-security report form. In the main, these items are net income from a business, profession, or farm (schedule C of the Federal income-tax return), and from partnerships, syndicates, etc. (schedule E).

If the contribution base for the self-employed is to be strictly comparable to that for the groups now covered, only the net income from self-employment attributable to personal services should be taxable. We believe, however, that this refinement would be admin-

<sup>2</sup> The census figures on farm operators include many persons who are principally engaged in other kinds of employment or are retired persons, disabled persons, people of independent means, and operators dependent on the wage income of someone else in the family group.

istratively impossible. The contribution base for the self-employed can readily exclude certain types of income which are obviously not work-connected, such as dividends, interest, annuities, capital gains and losses, and some types such as rental income from real property that largely arise from capital investment. Each dollar of income from typical self-employment such as retail trade or a profession or farming, however, is income derived partly from personal services and partly from capital investment, combined in such a way as to make any separation virtually impossible.

For many persons with relatively high income from a business, profession, or farming, the failure to make the distinction between income from personal services and income from investment will be of little significance, since that part of their income (the first \$4,200 a year of net income) on which they will pay contributions may be presumed to be derived from personal services. Self-employed persons with lower incomes who yet have substantial capital invested in their business, however, will get higher benefits and pay more in contributions than they would if it were possible to tax only their income from personal services.

One of the reasons for our recommending that self-employed persons contribute at a rate of  $1\frac{1}{2}$  times the employee-contribution rate rather than at the combined rate for employer and employee is the fact that some of them will be paying on income from capital investment as well as on income from personal services. Moreover, if they were required to pay twice the normal employee rate, the high-income self-employed persons who contributed over a long period might be "overcharged" for their coverage in relation to what they would have to pay for comparable protection under private insurance. The later retirement age which characterizes the self-employed will lengthen their contribution period, reduce the number of years they receive retirement benefits, and result in savings to the trust fund. As a reasonable compromise, we recommend that the self-employed person—who is at once his own employer and employee—should contribute at  $1\frac{1}{2}$  times the employee rate.

The Council believes that, at the outset, extension of coverage to the self-employed should be limited to those at income levels to which the requirement for filing Federal income-tax returns has applied, i. e., those with gross annual incomes of at least \$500. We therefore recommend exclusion of those whose self-employment yields gross income of less than \$500 or a net income of less than \$200. Setting a minimum net income for coverage in addition to a minimum gross income will prevent a large volume of returns from persons who earn so little from self-employment that they could not qualify for benefits. This exclusion will avoid reporting with respect to inconsequential amounts of income and will avoid collecting contributions at an expense out of all proportion to the benefits afforded.

We advocate limiting coverage to those who have been required to file income-tax returns in the past. The coverage of the old-age and survivors insurance system should not vary with changes in the income-tax exemption. The Treasury Department should require returns for social-security purposes from anyone who has a gross income of \$500 or more and net income of at least \$200, regardless of changes in income-tax requirements.

The application of a retirement test for the self-employed presents special and difficult problems. This is one of the reasons for the recommendation in proposal 19 that benefits be paid at age 70 or over without reduction for earnings. Since many self-employed persons remain at work until at or near age 70, the application of the retirement test only to beneficiaries under that age will avoid the need to make many of the more difficult administrative determinations connected with such a test. The work clause for those between 65 and 70 will, of course, have to be modified for the self-employed in view of the fact that their income will be reported annually.

## 2. Farm Workers

*Coverage of the old-age and survivors insurance system should be extended to farm employees*

During the course of a year about 3.5 million agricultural workers are excluded from old-age and survivors insurance. The social desirability of extending coverage to these workers has long been a matter of common agreement, and it is now evident that administrative considerations no longer constitute an important barrier to their receiving the protection of the system. The Treasury Department and the Social Security Administration have developed plans which the Council believes are workable, although reporting problems may be difficult in the early years.

The Treasury Department in cooperation with the Social Security Administration should be left free to select the method of collecting contributions for these workers. Although we believe that either the stamp system or some modification of the present reporting plan would be practicable, we believe that it would be a mistake at this point to stipulate the exact method to be used and thus preclude further study by the agencies concerned.

Wages credited toward benefits should include wages-in-kind, when substantial. Without credits for wages-in-kind, many farm workers would be ineligible for benefits, and the benefit amounts for which many others could qualify would be very small. Although evaluating wages-in-kind may prove difficult at the outset, the same type of problem is now being met satisfactorily for groups covered under the present system. Wage credits of workers in restaurants, hotels, and cafeterias and of maritime workers, building superintendents, and resident managers, among others, already include wages-in-kind. Minimum presumptive schedules setting the value of the more important types of wages-in-kind, such as regular meals and lodging, might be of assistance to farm workers and their employers in reporting wages. Inconsequential facilities or privileges, which might create a reporting nuisance out of all proportion to their significance, should be excluded.

## 3. Household Workers

*Coverage of the old-age and survivors insurance system should be extended to household workers*

The 2.5 million persons who work in household employment during the course of a year should be covered under old-age and survivors insurance. They need social insurance protection fully as much as



does any other group, and the Council believes that it is now administratively feasible to extend protection to them.

Though there was ample reason at the outset to postpone undertaking the special problems of including household workers in the system, the administrative agencies are now in a position to deal adequately with these problems. A strong argument for the delay was the difficulty anticipated in collecting wage reports and contributions from the employers of domestic workers. Since employers may be expected to outnumber employees in this area, the relatively high costs and administrative problems generally associated with obtaining reports from small employers will be heavily concentrated here. The Social Security Administration and the Treasury Department, however, have now had 11 years of experience in collecting wage reports and contributions from small employers, and the administrative machinery of the insurance system functions satisfactorily for these small establishments. In the first quarter of 1946, for example, employers with only one employee represented one-fourth of the total number who reported for purposes of old-age and survivors insurance.

In the early years of coverage for household workers, some difficulties may arise from delinquency in the payment of contributions and from incomplete understanding of the program by household workers and their employers. We believe, however, that these problems can be solved fully as effectively and quickly as were the very considerable problems met when the present program was started.

As we indicated with respect to farm workers, we believe that, for household workers, substantial wages-in-kind in the form of meals and lodging should be reported and recorded as wage credits, but that wages-in-kind of relatively small value should be disregarded. As in the case of farm workers, also, the administrative agencies concerned should be left free to decide on the methods to be used for collecting wage information and contributions.

#### 4. Employees of Nonprofit Institutions

*Employment for nonprofit institutions now excluded from coverage under the old-age and survivors insurance program should be brought under the program, except that clergymen and members of religious orders should continue to be excluded*<sup>3</sup>

Approximately a million employees of nonprofit organizations are at present denied the protection of the old-age and survivors insurance program. Almost half are in the service of charitable organizations, one-fourth are in educational institutions, and another fourth work in religious institutions. These employees include not only professional persons such as nurses, teachers, and clergymen, but also office workers, laboratory assistants, janitors, and maids.

The extension of coverage to employees of nonprofit organizations presents no administrative difficulties and the need for old-age and survivors insurance protection of these workers and their families is as great as for workers who are now covered. Especially when they work in nonprofessional jobs, the tasks and earnings of employees of nonprofit organizations, as well as the extent to which they move

<sup>3</sup> Two members of the Council favor extension of coverage to the nonprofit group on an elective basis for reasons given in appendix I-E.

from one job to another, are equally characteristic of industrial and commercial workers.

Probably not more than two-fifths of the employees of nonprofit organizations are covered by any formal retirement plan and very few of such plans extend protection to survivors. Moreover, in general, the right to pensions from the private plans is contingent on long periods of service, hence, persons who transfer from one nonprofit organization to another or between nonprofit and other organizations, may forfeit all retirement rights.

Although many clergymen are covered by retirement programs, in some denominations the lower-paid clergymen do not participate, while benefits for those who do are often inadequate; more serious, however, is the fact that few lay employees of churches have any assurance of economic security in their old age through staff pension plans. Not more than half the college teachers of the Nation actually participate in retirement systems, and in private colleges most such systems do not cover nonteaching personnel. Coverage under old-age and survivors insurance can and should be effected for teachers, employees of charitable and scientific organizations, and lay employees of churches, without impairing any of the rights which individuals may have built up under private systems.

Leaders of religious, charitable, scientific, and educational organizations apparently agree on the desirability of providing protection under old-age and survivors insurance for employees of these institutions. Some, however, have feared that an extension of the compulsory insurance system to employment for religious institutions might impair religious freedom by undermining the principle of the separation of church and state. Others evidently feel that a tax on employers under the Federal Insurance Contributions Act would tend to weaken the traditional tax-exempt status of such institutions.

The members of the Council are unanimous in believing that freedom of religion should be protected, but we are convinced that a tax on employment—a function which employers in the nonprofit area have in common with all others—for the special purpose of giving equal social insurance protection to all employees would in no way imply or lead to Government control over the performance of the religious function. To make it absolutely clear that the legislation is not concerned with the performance of religious duties, we recommend that persons directly engaged in religious duties, such as clergymen and members of religious orders, remain exempt from coverage under the program. Our recommendation would extend coverage only to lay personnel who perform services which are secular in character.

We also believe that public encouragement of religious, charitable, scientific, and educational enterprise should be continued through preservation of the traditional tax-exempt status of such institutions. That encouragement, however, would be better expressed, we believe, by extending social insurance protection to their employees than by continuing to deny it. Employers in the nonprofit field are at a considerable disadvantage in the labor market because they cannot offer retirement and survivorship protection, hence, coverage exclusion handicaps these organizations and fails to promote their services to the community.

Religious, charitable, scientific, and educational organizations, which have been traditionally exempt from taxation on income and property dedicated to the purposes which the community wishes to promote, can and should continue to enjoy their traditional tax exemption when the old-age and survivors insurance program is extended to their employees. It has long been customary to require such institutions to pay certain types of special assessments for property improvement, to pay Federal excise taxes, and in some States to pay the local and State taxes on commodities which they use. Even in some States with exclusive State funds, they have been required to carry workmen's compensation insurance. The use of Government compulsion in connection with these special taxes and levies has not led to taxation on the property and general income of these institutions. Moreover, many organizations such as trade-unions, trade associations, fraternal and beneficial organizations, and the like, which are exempt from the Federal income tax and certain other taxes, pay the old-age and survivors insurance contribution without appearing to be in danger of losing their exemptions under other laws.

Old-age and survivors insurance levies a special-purpose tax on the function of employment. The proceeds are automatically appropriated to a trust fund dedicated to benefits for those who have contributed. It has always been clear that it is a special kind of tax which should not serve as a precedent for other forms of taxation any more than would a special assessment levied by a local government. We believe, however, that Congress should indicate its intent that the taxation of nonprofit organizations for old-age and survivors insurance in no way implies a departure from the principle of promoting the function of these organizations through tax exemption, and that a major reason for extending protection to this area of employment is to assist these institutions in fulfilling their purpose.

### 5. Federal Civilian Employees

*Note.*—The enactment of Public Law 426 by the Eightieth Congress has strengthened and improved the Civil Service Retirement Act. Some 500,000 Federal workers<sup>4</sup> remain outside the coverage of any retirement system, however, and neither retirement nor survivorship protection is afforded Federal employees with less than 5 years of service. Estimates developed from prewar employment figures indicate that, in general, only about 60 percent of all persons entering Federal service remain for 5 years or more.

Persons who leave Federal service after having been employed for as much as 5 years but less than 20 years may elect to withdraw their contributions instead of accepting a deferred annuity. When they so elect, they lose all retirement protection under the Civil Service Retirement Act. Whatever survivorship protection an individual may have acquired under the civil-service plan lapses as soon as he leaves the Federal service.

*Old-age and survivors insurance coverage should be extended immediately to the employees of the Federal Government and its instrumentalities who are now excluded from the civil-service retirement system. As a temporary measure designed to give protection to the short-term Government worker, the wage credits of all those who die or leave Federal employment with less than 5 years' service should be transferred to old-age and survivors insurance. The Congress should direct the Social Security Administration and the agencies administering the various Federal retirement programs to develop a permanent plan for extending old-age and survivors insurance to all*

<sup>4</sup> This figure includes an unknown number of foreign nationals.



*Federal civilian employees, whereby the benefits and contributions of the Federal retirement systems would supplement the protection of old-age and survivors insurance and provide combined benefits at least equal to those now payable under special retirement systems*

The Advisory Council believes that the civil-service retirement system—which now covers about 1.5 million workers—should be maintained as a supplementary retirement system because of its importance in furthering the efficient conduct of the business of government. The civil-service retirement system performs the function of a private staff-pension plan. For this function to be performed successfully and for the Government to meet the obligations created by its compulsory retirement of its employees, benefits larger than those payable under the general old-age and survivors insurance system must be provided. Hence, nothing should be done to weaken the Federal civil-service retirement system.

We are convinced, however, that extension of the coverage of old-age and survivors insurance to all Federal civilian employees (including those, other than foreign nationals, who are employed outside the United States) would strengthen rather than weaken the civil-service system. Such extension would remedy three major defects in the protection now afforded Federal employees—the lack of adequate survivorship protection, the lack of continuity of protection for those who move in and out of Government service, and the exclusion of many Federal workers from any Government retirement system.

The survivor benefits provided by Public Law 426 (80th Cong., 2d sess.), while of considerable value for long-term workers, are quite inadequate for the survivors of workers with relatively short periods of Federal service. First, no monthly survivor benefits are payable unless the employee has had at least 5 years' service. Second, survivor benefits are very small if the employee has had only a short period of service and annual wages at about the current average. Thus, the widow of a Federal employee who had 5 years of service and an average annual salary of \$3,000 would receive a monthly payment of about \$11, and his child's monthly payment would be about \$6. The Federal employee, like all others, needs survivorship protection based on the insurance principle of full protection for the young worker as well as for the older age groups.

As noted above, persons who leave Federal employment with less than 5 years' service receive only a refund of their contributions to the civil-service retirement system, while those who leave after 5 years but before 20 years of service have the option of receiving either a refund of their contributions or a deferred annuity. Almost 20 percent of all Federal employees leave in their first year of Government employment and another 10 percent leave during the second year. According to data developed from prewar histories, only about one-third stay on to retirement. The time spent in Federal employment, moreover, reduces the possibility of obtaining adequate protection under old-age and survivors insurance. Extension of old-age and survivors insurance coverage to Federal employment would provide continuing protection for these short-time workers as well as for career employees.

The 500,000 persons who are now working for the Federal Government in civilian jobs and who are not covered by any Federal retirement program represent nearly one-fourth of the total of all Federal



employees. The group includes some postal workers, and certain temporary, part-time, contract, and piecework employees.

Pending the development of a suitable plan, recommended by the agencies concerned, for extending old-age and survivors insurance coverage to all employees (except foreign nationals) and congressional action on such general extension, coverage should be extended immediately to the employees of the Federal Government and its instrumentalities who are not now covered under any system. Old-age and survivors insurance coverage would be particularly valuable to many employees in this group because they are temporary or part-time workers who may ordinarily work in employment now covered under old-age and survivors insurance.

In addition, we advocate some immediate provision for the employee whose Federal service is too short to furnish protection under the civil-service retirement system, even though he is covered by that system. Accordingly, as a temporary measure, pending complete extension of coverage to all Federal workers, we recommend that—when separated from Federal service, whether by death, resignation, or dismissal before having served for 5 years—the Federal employee receive appropriate wage credits under old-age and survivors insurance for his Federal service.

When the employee leaves the service, he should receive a refund of his contributions to the civil-service retirement system, less an amount equal to the employee contribution which he would have paid on his wage credits if he had been contributing toward old-age and survivors insurance. The latter amount should be transferred to the Federal Old-Age and Survivors Insurance Trust Fund, and this transfer of credits and contributions should be irrevocable. In addition, the Federal Government, through an annual appropriation by the Congress, should pay the old-age and survivors insurance trust fund the employer's share of the contributions which would have been collected for old-age and survivors insurance with respect to the wage credits given for Federal service. To be eligible for full civil-service retirement benefits if he later returns to Federal service, the employee should be required, after completing 5 years of total service, to re-deposit the full amount of his previous contributions to the civil service retirement and disability fund. In some such instances, he will thus have duplicate credits for the same period of service. In a temporary plan, however, this duplication does not seem serious, since the employee will have paid for his credits under each program.

When the employee dies during his first 5 years of service, the old-age and survivors insurance trust fund should be reimbursed for the cost of that part of the benefits payable to his survivors which is attributable to his civil-service wages. This reimbursement should be based on recommendations by the Civil Service Commission and Social Security Administration as to the most equitable method for such reimbursement.

This proposal falls short of an adequate permanent solution to the problem. It does nothing, for example, for persons who, on leaving Federal service after 5 years, elect to take an immediate refund rather than a deferred annuity; it also fails to provide survivorship protection for those who leave Federal service. A temporary measure obviously cannot avoid all possible situations in which hardship may develop. The measures we propose are a stopgap to prevent the most glaring anomalies, until such time as complete old-age and survivors

insurance coverage of Federal employees, with appropriate supplementation by the civil-service retirement system, can be adopted.

## 6. Railroad Employees

*Note.*—Like the civil-service retirement system, the Railroad Retirement Act has recently been substantially revised. The amendments of 1946 (Public Law 572, 79th Cong.) established survivorship protection for railroad workers based on a combination of their earnings in the railroad industry and in employment covered by old-age and survivors insurance, under eligibility and benefit provisions closely resembling those of old-age and survivors insurance. No such coordination, however, is provided for retirement protection under the two programs, hence workers with earnings from both railroad employment and employment covered by old-age and survivors insurance, but with only a relatively few years in either one, may receive considerably lower retirement benefits in relation to their contributions than they would if all their employment had been covered under one program or the other. The extent of shifting between the two employment areas is substantial.

*The Congress should direct the Social Security Administration and the Railroad Retirement Board to undertake a study to determine the most practicable and equitable method of making the railroad retirement system supplementary to the basic old-age and survivors insurance program. Benefits and contributions of the railroad retirement system should be adjusted to supplement the basic protection afforded by old-age and survivors insurance, so that the combined protection of the two programs would at least equal that under the Railroad Retirement Act*

The railroad retirement system developed out of special conditions on the railroads and has a distinctive history. It grew out of, and superseded, many private pension plans which had existed in the railroad industry, and through its adoption the protection which formerly had been afforded to only a limited number of railroad workers was made available to all. The protection against old age and premature death provided by the railroad retirement program is generally more liberal than that provided under old-age and survivors insurance, and long-service railroad workers are insured against the risk of permanent and total disability. Moreover, the contributions of the railroad program are considerably larger than those now payable under old-age and survivors insurance.

While the railroad program provides adequately for the workers who remain in the industry during their entire working lifetimes, inadequate protection is given in some instances to those who move between railroad and other employment. That this movement is very large is indicated by a comparison of the total number of workers employed by the railroads during a year with the average number at work at any one time. While average railroad employment in 1945 was nearly 1.7 million, about 3.1 million individuals had some railroad earnings during the year. Thus, for every 100 railroad employees working at a given time in 1945, 183 acquired railroad-retirement credits in that year; in 1940 this ratio was 100 to 140. During 1937-46 probably about 4,000,000 persons had wage credits under both railroad retirement and old-age and survivors insurance; this group represents more than half the workers (approximately 7,000,000) with wage credits under the Railroad Retirement Act during the 10-year period.

Extension of old-age and survivors insurance to railroad employees would prevent losses in protection that may now result from these

shifts in employment. It would also prevent the disproportionately high total of benefits which may result from shifting employment in some cases. Such cases arise when a higher-paid worker employed for the most part in the railroad industry, and so eligible for substantial railroad benefits, acquires enough credit under old-age and survivors insurance to qualify for benefits under that program also and receives the advantage of the weighting in the benefit formula of the latter program which is intended to favor lower-paid workers.

The railroad-retirement program gives railroad workers vested rights in retirement benefits regardless of the length of time they are employed. Thus, unlike Government employees, employees of non-profit organizations, and members of the armed forces, railroad workers are certain to qualify for at least some benefits under at least one retirement system. Nevertheless, we believe that employees who spend all or part of their working lives in the railroad industry should have all their employment credited under the old-age and survivors insurance program; otherwise, some railroad workers will contribute substantially toward that program without qualifying for its benefits. Furthermore, during the early years of the old-age and survivors insurance program, some persons who work for only a few years in railroad employment will have less in combined protection than they would if they had been under old-age and survivors insurance continuously.

If the basic protection of old-age and survivors insurance were extended to railroad employment, supplementary benefits under the railroad program would be needed to prevent railroad workers from receiving less retirement and disability protection than is now available to them. If the survivor benefits of old-age and survivors insurance are increased as we propose, they would be higher than survivors benefits under the present Railroad Retirement Act.

We believe that the basic differences between the structures of the retirement benefits under old-age and survivors insurance and the Railroad Retirement Act preclude any coordination short of extending old-age and survivors insurance coverage to railroad workers and making the Railroad Retirement Act a supplementary program. In our opinion, a satisfactory plan can be developed for extending old-age and survivors insurance to all railroad employees and thus strengthening the protection now afforded railroad workers. A report on such a plan should be made to Congress at the earliest practicable date.

Extension of old-age and survivors insurance to railroad employees and making the railroad system supplementary to old-age and survivors insurance would result in lower pay-roll contributions by railroad workers and their employers for the same protection as at present if, as we propose, old-age and survivors insurance is ultimately financed in part by appropriations from general revenues.

## 7. Members of the Armed Forces

*Old-age and survivors insurance coverage should be extended to members of the armed forces, including those stationed outside the United States*

Although the career serviceman is eligible for retirement benefits after 20 years of service, the person who spends a shorter period in the armed forces is seriously handicapped by the fact that his military or naval service is not covered under old-age and survivors insurance.



At his death his survivors may not be eligible for any benefits, since protection of peacetime servicemen under the programs for veterans ceases immediately on discharge from service; while if he lives to retirement age, he may fail to be eligible for retirement benefits under either old-age and survivors insurance or one of the special retirement plans. In other cases, benefits will be payable only under old-age and survivors insurance and at a greatly reduced rate because of the time spent in the armed forces. Extension of old-age and survivors insurance to the armed forces will give continuous basic protection both to the career serviceman and to those with shorter periods of military or naval service.

We believe that an adequate staff system affording retirement and survivorship protection for peacetime servicemen is essential to maintaining a strong and efficient military establishment. Although benefits payable under service retirement systems and the programs for veterans should be adjusted to supplement the basic benefits payable under old-age and survivors insurance, nothing should be done to weaken the military staff retirement system. The combined protection under the various programs should at least equal that afforded servicemen at present.

Wage credits under old-age and survivors insurance for personnel of the armed forces should represent the amount of remuneration actually received, including the cash value of perquisites and the amount of allowances to the extent that such perquisites and allowances can be regarded as remuneration for services performed. Perquisites furnished and allowances paid solely in consideration of the serviceman's dependents, however, probably cannot be so regarded, since they do not vary with the grade of the serviceman or the type of services performed.

The Federal Government, as the employer, should pay the equivalent of the employer tax under the Federal Insurance Contributions Act, and the servicemen themselves should bear the cost of the employee contribution. Servicemen should have the same interest and stake in the system that other covered workers have, and the contributory character of the basic insurance program should be maintained.

## 8. Employees of State and Local Governments

*The Federal Government should enter into voluntary agreements with the States for the extension of old-age and survivors insurance to the employees of State and local governments, except that employees engaged in proprietary activities should be covered compulsorily*

Voluntary coverage of a limited group under an otherwise compulsory social insurance system is ordinarily undesirable and unwise. Under a system such as old-age and survivors insurance, in which benefits are not directly related to the value of the contributions paid, voluntary participation is likely to result in disproportionately large benefits for those who elect coverage. Even if voluntary participation is limited to entire groups of workers, the organizations that elect coverage are likely to be those in which most employees are persons nearing retirement age or men with large families. The smaller the organization, of course, the greater the danger of this "adverse selection."

Because of the apparent constitutional barrier against Federal taxation of the States, however, coverage of the employees of State



and local governments, except for those engaged in proprietary functions, will have to be on a voluntary basis unless these government employees are to be denied the protection of the Federal program. Because of this fact, and because a clear need exists for old-age and survivors insurance protection of these employees, the Council believes that a voluntary plan should be offered to State and local governments in their capacity as employers.

Coverage can and should be extended on a compulsory basis to government employees engaged in proprietary—as opposed to government—functions of the employing units. Proprietary activities include, for example, State liquor stores, municipal subway systems, and other public utilities that are owned and operated by the government unit. Compulsory extension of coverage to these groups appears to raise no constitutional questions and would immediately give 150,000 to 200,000 workers the advantages of basic social insurance protection.

Under a voluntary system, adverse selection occurs when coverage is elected by only a part of the total employee group and that part is not representative of the entire group. Such selection can be controlled to some extent by restricting the employer's latitude of choice in determining coverage of the plan. The Council, therefore, recommends that coverage be permitted only when elected for all employees within an occupational or departmental group. Thus, when coverage is extended to a government department, bureau, or other administrative division of the State or of a locality, all employees of the department would have to be covered. If coverage is extended to an occupational group, all employees of a State or of a local government unit who are engaged in the specified type of work (such as teachers, typists, truck drivers, janitors) would have to be covered.

As further assurance that the covered group will contain a reasonably representative distribution of risks, coverage should be permitted only if one-fourth of the employees of the State or local government (such as a county, township, municipality, or school district) are brought into the program. This requirement would probably be adequate for the larger local government units, but a more restrictive one is recommended for localities with less than 400 employees. If the locality has less than 400 but more than 100 employees, coverage would have to be elected for at least 100 employees. If the local government unit has 100 or fewer employees, all would have to be covered.

It is recommended that agreements be entered into only with States, although political subdivisions of the State should be permitted to participate. A State entering into an agreement would assume the responsibilities of an employer under old-age and survivors insurance; that is, the State, both for itself and for those of its political subdivisions which participate in the agreement, would collect and transmit to the Federal Government wage information and contributions. The fact that the Federal Government would deal only with the States would greatly reduce an otherwise heavy administrative burden. Since the agreements would be voluntary, no question of the Federal right to levy a tax on States and localities would be raised.

As of April 1947, nearly 4,000,000 employees of States, political subdivisions of States, and instrumentalities of State and local governments were excluded from old-age and survivors insurance. The average earnings of these employees as a rule are somewhat lower than those in private industry. The average monthly salary during

April 1947 was \$160 for nonschool employees and \$185 for school employees as compared with an average monthly wage of about \$205 in manufacturing industries.

Almost half the total number of State and local employees are not covered under any retirement system, and of those who are so covered, probably about four-fifths lack adequate survivorship protection. The need of this group for the protection of the old-age and survivors insurance program is clear. An equally important reason for extending old-age and survivors insurance to employees of State and local governments is to give public workers continuous protection when they shift from one government unit to another, or between government units and private industry. Existing State and local staff retirement systems are designed primarily for those who continue in the service of the particular unit until their retirement; the majority of those who leave the service before retirement age normally forfeit any rights to retirement benefits they may have acquired. Similarly, persons who enter government employment from private industry may lose all or part of the protection they have acquired under old-age and survivors insurance.

Although jobs in State and local government agencies are more stable than in many areas of private industry, there is nevertheless a substantial turn-over. In April 1946, a typical month, 3.4 million persons were employed by State and local governments, while during the whole year about 4.3 million were so employed. Thus, several hundred thousand had temporary employment in these units, or shifted from permanent government jobs to work in other fields. In 1944, about one-seventh of all nonschool employment for State and local government units was on a part-time basis and about one-eighth of all State and local employment was temporary. Even for the permanent, full-time jobs, the annual turn-over probably ranges from 4 to 7 percent.

Many proposals previously advanced for covering these workers have advocated excluding, on either a permissive or a mandatory basis, various limited groups of State and local employees, apparently in fear that coverage under old-age and survivors insurance would weaken or even completely destroy their State and local retirement system. As pointed out in the Council's recommendations for coverage of Federal and railroad employees, retirement systems supplementary to old-age and survivors insurance perform a valuable and necessary function. When coverage is extended to State and local employees who are members of staff retirement systems, those systems can be adjusted to supplement the basic old-age and survivors insurance benefits. Private employers have demonstrated that such adjustments can be made satisfactorily and without any loss in total retirement protection. The Council believes that in light of (a) the incontrovertible merit of the retention and development of supplementary plans, (b) the fact that employees under industrial pension systems did not suffer losses in benefits attributable to adjustment to the old-age and survivors insurance program, and (c) the fact that State and local governments have recognized the need for, and taken action to provide, retirement protection for their employees, any fear that the availability of old-age and survivors insurance will lead government units to reduce the total protection afforded their employees is unjustified.

## 9. A Study of Social Security Protection for the Possessions of the United States

*A commission should be established to determine the kind of social security protection appropriate to the possessions of the United States*

The social insurance and public assistance provisions of the Social Security Act do not at present apply to Puerto Rico, the Virgin Islands, Guam, or other possessions of the United States, even though the livelihood and security of the people of such possessions are bound up with the United States economy. The kind of social security protection to be afforded to these people should be based on detailed studies of economic and social conditions in the islands. Matters that require investigation include wage rates, regularity of employment, extent of unemployment, incidence of illness, and the nature of public assistance and public-health provisions now administered by the insular governments.

The extended inquiry which would be called for, particularly since areas outside the continental United States are involved, is believed by the Council to be beyond its function. For this reason the Council proposes that a special commission be established to make such inquiry and recommend appropriate social security legislation. The commission should represent the general public, including residents of the possessions, as well as agencies such as the Federal Security Agency and the Departments of Labor, Agriculture, Interior, Commerce, and Treasury, which either have a special interest in the islands or would normally concern themselves with the problems at issue.

## 10. Inclusion of Tips in the Definition of Wages

*The definition of wages as contained in section 209 (a) of the Social Security Act, as amended, and section 1426 (a) of subchapter A of chapter 9 of the Internal Revenue Code should be amended to specify that such wages shall include all tips or gratuities customarily received by an employee from a customer of an employer*

Tips or gratuities paid directly to an employee by a customer of an employer, but not "accounted for" by the employee to the employer, are not now included in wages as defined for benefit and contribution purposes. Only a small part of all tips are now accounted for. Consequently, substantial numbers of workers in such service industries as hotels, restaurants, barber shops, and beauty parlors are denied the degree of protection they would acquire if all such payments were included in their wage records. Some workers may fail to qualify for benefits because, except for tips, their remuneration is inconsequential. This condition is especially illogical since tips are frequently contemplated in the wage contract, are earned in the service of the employer, and are received for services generally recognized as performed in the interest of the employer.

Tips are included in taxable income under the Federal income-tax law. Moreover, in about half the States, such payments are reported under the State unemployment insurance laws on a more inclusive basis than under the program of old-age and survivors insurance.

Estimates indicate that full inclusion of tips and gratuities would sharply increase the wage credits of approximately a million workers now covered by the old-age and survivors insurance program. The



increase for roughly two-thirds of that number would amount to about 40 percent of their wages as reported under present interpretation of the law. According to Department of Commerce estimates, \$183,000,000 was paid in tips in 1939; \$196,000,000 in 1940; \$238,000,000 in 1941; \$308,000,000 in 1942; and \$396,000,000 in 1943. If a similar rate of increase continued after 1943, as seems likely during years of high prices, the total amount now paid in tips might well exceed half a billion dollars a year. The inclusion of such additional sums in the wage credits of approximately a million workers in covered service industries would clearly have an important effect on their benefits rights and their contributions to the trust fund.

In the absence of an exact reporting of tips by persons receiving them, it would be possible to permit employers to report a reasonable estimate of the tips received by their employees, as is now done under some of the State unemployment insurance laws. In making such estimates, the employer would take into account the volume of business handled by the employee, the tips reported by other employees, the type of establishment, and any other pertinent factors. The employer should not be held responsible for any inaccurate reporting of tips by his employees, however, and should be protected from penalties on this account. Procedural and administrative questions could be settled by appropriate regulations designed to implement the intent of the law.

Adoption of this recommendation, the Council believes, would bring the contributions paid and the benefits received by a large number of people more nearly in line with their actual earnings, thus ending an inequity to persons whose employment is covered by the program but who receive much of their remuneration for such employment in a form not now considered wages. It would also result in greater uniformity in interpretation of wages in laws relating to income taxes, unemployment insurance, and old-age and survivors insurance.

## RECOMMENDATIONS ON ELIGIBILITY

### 11. Insured Status

*To permit a larger proportion of older workers, particularly those newly covered, to qualify for benefits, the requirements for fully insured status should be 1 quarter of coverage<sup>5</sup> for each 2 calendar quarters elapsing after 1948 or after the quarter in which the individual attains the age of 21, whichever is later, and before the quarter in which he attains the age of 65 (60 for women) or dies. Quarters of coverage earned at any time after 1936 should count toward meeting this requirement. A minimum of 6 quarters of coverage should be required and a worker should be fully and permanently insured if he has 40 quarters of coverage. In cases of death before January 1, 1949, the requirement should continue to be 1 quarter of coverage for each 2 calendar quarters elapsing after 1936 or after the quarter in which the age of 21 was attained, whichever is later, and before the quarter in which the individual attained the age of 65 or died*

The Council recommends a "new start" in the eligibility requirements which will require the same qualifying period for an older

<sup>5</sup> As under the present program, a calendar quarter in which the worker has \$50 or more in earnings from covered employment.



worker now as was required for a person who was the same age when the system began operation. All workers who will have attained age 62 before the middle of 1949 would be insured with the minimum of 6 quarters of coverage, just as workers of the same age in 1937 could be insured with the minimum number.

A major reason for the fact that the old-age and survivors insurance program has been slow in replacing public assistance as the chief method of meeting income loss in old age is the difficulty which older people face in meeting the present eligibility requirements. Eleven years after the inauguration of the program only about 20 percent of the population aged 65 and over is either insured under the program or receiving benefits.

Eligibility requirements for the older workers as difficult to meet as those of the present program (24 quarters of coverage will be required under present provisions for those attaining age 65 in the first quarter of 1949) mean an unwarranted postponement of the effectiveness of the insurance method in furnishing income for the aged. In a contributory social insurance system, as in a private pension plan, workers already old when the program is started should have their past service taken into account. The unavailability of records of past service prevents giving actual credits under old-age and survivors insurance for employment and wages before the coverage becomes effective, but eligibility requirements and the benefit formula can and should take prior service into account presumptively. To pay benefits to all the current aged—including those who have not worked at all since the inauguration of the system—might endanger the character of the benefit based on contributions and work records, but in getting the system started, it is important to make due allowance for those who, because of age, will probably continue at work for only a short period.

All persons who reached age 62 before the middle of the year in which the system began to operate (1937) could be fully insured under the present act if they acquired six quarters of coverage. Those who attained age 62 in the third or fourth quarters of 1937 needed 7 quarters, and so on, while, as indicated above, those attaining age 65 in the first quarter of 1949 will need to have had 24 quarters. After 1956, under the present provisions, all persons who had attained age 21 before 1937 will need the maximum requirement of 40 quarters.

Unless the present provisions are modified, all persons covered for the first time in January 1949 who are less than 57 years old will have to have 10 years of coverage before they can become eligible for retirement benefits, while even those aged 65 will need six more years of steady employment before they can receive benefits. A "new start," treating those newly covered workers in the same way that the program treated other occupational groups when they were first covered, seems reasonable and fair.

While it would theoretically be possible to liberalize requirements only for newly covered workers and to retain the present provisions for all others, this is not a practical or desirable solution. Shifts between covered and noncovered employment are so common that it would be all but impossible to establish a fair criterion for determining, for the purpose of special eligibility requirements, which individuals should be treated as belonging to a newly covered occupation. Any

liberalization designed to reduce the handicap of newly covered workers must be a generally applicable provision.

The Council recommends that the liberalization of eligibility requirements should apply only to individuals living at the date of coverage extension. This proposal is consistent with the treatment accorded survivors under the 1939 amendments when the provisions for survivor benefits were made applicable only in cases of death after December 31, 1939. Considerable administrative difficulty would arise if the eligibility for benefits of individuals who died before the amendment of the law were reconsidered.

Of the various possible methods of adjusting the fully insured status requirement for newly covered workers, the one we recommend seems to us to offer the advantages of uniformity and simplicity and at the same time to provide a much-needed liberalization in the requirements for all older workers. It would also reduce the disadvantages which many workers normally in covered employment now face because of their work during the war in Government shipyards, munitions plants, emergency Government agencies, and other noncovered occupations.

The new-start method would be impractical if extension is on a piecemeal basis. More than one "new start," we believe, would be indefensible and would tend to weaken public confidence in the program. It would be possible to use the new-start plan, however, even though coverage is not extended to Federal and railroad workers until later, since available records of past employment and wages for these workers would permit crediting their back wages. Under such an arrangement, amounts equivalent to the contributions which would have been collected if the workers had previously been covered under old-age and survivors insurance could be transferred to the old-age and survivors insurance trust fund from the trust funds for their separate Federal retirement systems.

The "new start" would result in payment of retirement benefits to a much higher proportion of the aged during the early years of the system, but it would not increase beneficiary rolls and costs in the later years since the eligibility requirements would remain the same for workers now young.

## RECOMMENDATIONS ON BENEFITS

### 12. Maximum Base for Contributions and Benefits

*To take into account increased wage levels and costs of living, the upper limit on earnings subject to contributions and credited for benefits should be raised from \$3,000 to \$4,200. The maximum average monthly wage used in the calculation of benefits should be increased from \$250 to \$350* <sup>6</sup>

A social insurance program must be adjusted periodically to basic economic changes. In a dynamic economy, provisions which were appropriate at the time they became effective inevitably become

<sup>6</sup> While the majority of the Council favor increasing the upper limit to \$4,200, some favor keeping the limit at \$3,000 and some favor increasing it to \$4,800. The reasons for these two positions are given in appendix I-F.

outmoded. This is what has happened to the limitation placed on the amount of wages subject to contributions and allowed as wage credits.

In 1939, when the \$3,000 maximum wage base was established, nearly 97 percent of all workers in covered employment had wages of less than \$3,000 a year, and thus they were required to pay contributions on their total wages and could have their total wages counted toward benefits. Even among workers who were steadily employed throughout 1939, fewer than 5 percent received wages of more than \$3,000 a year. With the general rise in wage levels since 1939, however, the \$3,000 limitation has tended to exclude from taxation and use in benefit computations part of the wages of a substantial proportion of covered workers. In 1945 about 14 percent of all covered workers had wages exceeding \$3,000, and among workers who were steadily employed throughout the year, about 24 percent had wages in excess of that amount.

The wage base for contributions and benefits under the program should be higher not only because of increases in the level of wages but also because of price increases. Since the base has not kept pace with rising prices, benefits now supply a smaller proportion of the costs of maintaining the beneficiary's previous standard of living than they did in 1939. Today for example, \$4,200 a year represents a somewhat lower standard of living than \$3,000 a year could purchase a decade ago. Raising the upper limit on wages is necessary if the relationship between benefits and standards of living which was intended in the 1939 amendments is to be maintained.

To take full account of the increase in wages and prices, the limitation on taxable wages would have to be raised to somewhat more than \$4,800. The Council, however, recommends that a part of the increase in wages be disregarded by changing the limitation to \$4,200 as a conservative adjustment to the rise in wage and price levels which has occurred since the \$3,000 figure was adopted. With a wage base of \$4,200, about 95 percent of the workers in covered employment in 1945 would have had all their wages from covered employment available for benefit purposes.

If the old-age and survivors insurance program is to fulfill its function, benefits for all insured workers must be increased. Since the American system of relating benefits to past wages rests on the principle that considerations of individual security and individual incentive require a relationship between benefits and the previous standard of living of the retired person, benefits must be increased for higher-paid wage earners as well as for workers in the lower-income brackets. Comparisons between the primary insurance benefits payable under the plan proposed by the Advisory Council and those payable under the present program appear in table 1. As those figures show, we recommend that a worker with an average monthly wage of \$350 (the maximum) shall have the potential protection of a primary insurance benefit representing 22.5 percent of his average monthly wage. Under the present program, that percentage represents the primary insurance benefit of a worker who has earned \$3,000 or more a year and who has had 40 years of coverage.



TABLE 1.—Primary insurance benefit and its ratio (percent) to specified average monthly wages under the Advisory Council's proposals and under the present law <sup>1</sup>

Average monthly wage	Advisory Council's proposal <sup>2</sup>		Present law					
			10 years of coverage		20 years of coverage		40 years of coverage	
	Primary insurance benefit	Percent of average monthly wage	Primary insurance benefit	Percent of average monthly wage	Primary insurance benefit	Percent of average monthly wage	Primary insurance benefit	Percent of average monthly wage
\$50-----	\$25.00	50.0	\$22.00	44.0	\$24.00	48.0	\$28.00	56.0
\$75-----	37.50	50.0	24.75	33.0	27.00	36.0	31.50	42.0
\$100-----	41.25	41.2	27.50	27.5	30.00	30.0	35.00	35.0
\$150-----	48.75	32.5	33.00	22.0	36.00	24.0	42.00	28.0
\$200-----	56.25	28.1	38.50	19.2	42.00	21.0	49.00	24.5
\$250-----	63.75	25.5	<sup>3</sup> 44.00	17.6	<sup>3</sup> 48.00	19.2	<sup>3</sup> 56.00	22.4
\$300-----	71.25	23.8	<sup>3</sup> 44.00	14.7	<sup>3</sup> 48.00	16.0	<sup>3</sup> 56.00	18.7
\$350-----	<sup>3</sup> 78.75	22.5	<sup>3</sup> 44.00	12.6	<sup>3</sup> 48.00	13.7	<sup>3</sup> 56.00	16.0

<sup>1</sup> The percentage is higher when a wife's benefit is also payable.

<sup>2</sup> Uniform for all years of coverage.

<sup>3</sup> Maximum primary insurance benefit possible under the benefit formula.

An objective of the present law is to have workers in the highest wage brackets covered by the system pay the costs of their own benefits over a full working lifetime. Under the benefit formula we have recommended, benefits for the \$4,200-a-year man bear approximately the same relation to his contributions as benefits under the present law bear to the contributions of the \$3,000-a-year man.

With the increased base, the high-paid person will have somewhat higher benefits than he would have had if only the formula were changed, but he will in the long run, pay for nearly all the increase in the cost of his benefits. If the wage base is not increased, those in the higher wage brackets will have higher benefits without having contributed toward the cost of the increases.

### 13. Average Monthly Wage

*The average monthly wage should be computed as under the present law, except that any worker who has had wage credits of \$50 or more in each of six or more quarters after 1948 should have his average wage based either on the wages and elapsed time counted as under the present law or on the wages and elapsed time after 1948, whichever gives the higher result*

Persons whose occupations have been excluded from coverage under the present program will suffer serious disadvantage after coverage is extended, unless an alternative is permitted for the present method of calculating the average monthly wage. Under the present law, benefit amounts are based on an average computed, in general, by adding all wage credits a worker has received for covered employment and dividing that sum by all the months elapsing since 1936, except for quarters before the worker reached age 22 in which he received less than \$50. On this basis, a worker who has been in an employment hitherto excluded from coverage will always be penalized for his former lack of coverage, since, in effect, his wages from newly covered employment will be averaged over all the months elapsed



since 1936 or since he reached age 22, if later. His low average wage, in turn, will result in a low benefit amount.

The Council believes that an appropriate way to eliminate this handicap for newly covered groups would be to have their average wages computed from the date of the coverage extension, just as the average wage now disregards periods before January 1, 1937, for those in employments first covered as of that date. Since large numbers of workers have been in both covered and noncovered employment, however, it would be almost impossible to establish a sound basis for determining which individuals should be treated as belonging to a newly covered group. The opportunity to profit from the provisions designed for the newly covered groups must, therefore, be open to all persons.

Unless previously covered workers also have the alternative of a "new start," moreover, many will fare worse than those newly covered, since the relatively low wages paid in the late thirties and early forties will tend to reduce their average wages and thus yield benefit amounts lower than those of newly covered persons in comparable jobs.

Some insured persons will have little or no covered employment after the date coverage is extended; others will have too small an amount to form a fair basis for determining an average; and others may have employment after the "new start" at wages much lower than their previous earnings. The starting point of January 1937 specified in the present law should, therefore, be retained as an alternative and the individual worker's average wage computed from that date if it gives a higher amount than would the "new start."

The new start for all, on an alternative basis, appears to be the only equitable plan, but for the reasons pointed out in the recommendation for a new start on insured status (recommendation 11, p. 29) we do not recommend a new start unless coverage is extended broadly as of one date.

#### 14. Benefit Formula

*To provide adequate benefits immediately and to remove the present penalty imposed on workers who lack a lifetime of coverage under old-age and survivors insurance, the primary insurance benefit should be 50 percent of the first \$75 of the average monthly wage plus 15 percent of the remainder up to \$275.<sup>7</sup> Present beneficiaries, as well as those who become entitled in the future, should receive benefits computed according to this new formula for all months after the effective date of the amendments*

The benefit formula of the present program, with its automatic increase of 1 percent for each year of coverage, in effect postpones payment of the full rate of benefits for more than 40 years from the time the system began to operate. Under such provisions, if the benefit amount of a retired worker after he has had a lifetime of coverage represents a reasonable proportion of his average wage, that for older workers who have been in the system for only a few years and for the survivors of younger workers will almost of necessity be inadequate. Thus, the survivors of a man who began working at age 20 and dies at age 30 will have rights to benefits only about three-

<sup>7</sup> The members of the Council who favor retaining \$3,000 as the maximum annual wage credit and taxable wages would retain \$250 as the maximum average monthly wage. They advocate a primary insurance benefit representing 50 percent of the first \$75 of that monthly wage plus 15 percent of the remainder up to \$175.

fourths as large as those which the same average monthly wage would have provided if he had lived to age 65. Yet the worker who dies at an early age has had less opportunity than have older workers to accumulate savings and other resources to supplement the benefits payable to his survivors. The Advisory Council believes that adequate benefits should be paid immediately to retired beneficiaries and survivors of insured workers but considers it unwise to commit the system to automatic increases in the benefit for each year of covered employment.

Benefits payable under old-age and survivors insurance, with the beneficiaries' other permanent resources, should suffice to supply at least the basic necessities of life for the great majority of beneficiaries. The present program does not achieve this objective. Field studies made by the Bureau of Old-Age and Survivors Insurance in 1941 and 1942 in seven cities showed that one-third of the primary beneficiaries surveyed had insufficient nonrelief income, assets, and possible help from relatives in their household for a maintenance level of living and that, taking account of their own permanent resources only, nearly two-thirds of the beneficiaries had less than was required for a maintenance budget.<sup>8</sup>

Inadequate as benefits were in 1941-42, they are even less adequate now that costs of living have increased by at least 60 percent. The average primary benefit now being paid is only about 10 percent higher than that paid in 1940. The table in appendix I-D shows the distribution of benefits being paid under the present program at the end of 1947. The inadequacy of these benefits is self-evident.

The benefit formula in the present Social Security Act provides a primary benefit representing 40 percent of the first \$50 of the average monthly wage and 10 percent of the next \$200. It is thus weighted in favor of workers whose average wages are low. As a result of increases in wage rates, the effect of the original weighting, however, has been substantially reduced. In 1939, when the program was drafted and approved, \$50 represented about one-half the average monthly earnings of fully employed persons in covered employment. By 1947, fully employed workers were receiving an average of about \$185 a month. As a conservative recognition of the effect of wage increases on the original weighting, the Council recommends a change in the benefit formula to make \$75 the upper limit for that part of the average monthly wage to which the higher percentage is applied.

This change, however, will not in itself sufficiently increase the primary benefits of low-wage workers. Many beneficiaries now on the rolls receive benefits based on an average monthly wage of less than \$75. These beneficiaries and others in the future whose benefits are based on low wages lack outside resources and should not be denied the right to more liberal benefits. If the benefit formula gave 50 percent, rather than 40 percent, of the first \$75 of the average monthly wage, the beneficiaries whose rights are based on low wages would receive fairly substantial increases in their benefit amounts.

<sup>8</sup> The standard used was based on the WPA maintenance budget. For a single man living alone, it ranged from \$463 in Philadelphia-Baltimore to \$505 in St. Louis. For an aged couple it ranged from \$773 to \$814. Possible aid from relatives in the household, the imputed rental value of homes the beneficiaries owned, income from employment, and income from the liquidation of assets were among the resources taken into account. Since the studies were made shortly after the beneficiaries became entitled to benefits, many of them still had incomes and resources that could not be expected to continue in later years. For a fair picture of their economic security, therefore, the studies attempted to differentiate between temporary resources and those which could be considered permanent, such as old-age and survivors insurance benefits, retirement pay, insurance annuities, imputed rent from the homes they owned, and the estimated amounts that could be realized from their assets prorated over their life expectancy.

We also propose that the percentage applied to the portion of the average wage above \$75 be increased to 15 percent. If that percentage remains fixed at 10 percent, there will be too little spread between the benefit amounts of low-income and high-income workers. Thus, for an average monthly wage of \$100, the primary benefit would be only \$10 less than that for an average wage of \$200, a differential that we believe is insufficient for the wage interval of \$100-\$200, which now includes the great majority of workers in covered employment.

We believe that benefits should be related to the continuity of the worker's coverage by and contributions to the system, as well as to the amount of his earnings. Under our recommendations, accordingly, benefits will continue to vary—as they now do—with both these factors. Thus, in figuring the average monthly wage (recommendation 13, p. 33), a worker's total wage credits are—and would continue to be—divided by the total number of months that he might have been contributing to the system. His average wage, and consequently his primary benefit, will therefore be the smaller for each month lacking in his record of covered employment. In our opinion, this method of adjusting benefits permits sufficient differentiation between workers who are steadily employed in covered jobs and those whose covered employment is only brief or intermittent. Thus, an increment is not needed for the purpose of such differentiation.

With coverage broadly extended, the increment would serve largely to reward younger workers for their greater contributions by paying them higher retirement benefits than those paid to persons who were old when the system started. To us, such discrimination seems undesirable. The older worker should not be penalized for the fact that he could not contribute throughout his life. We propose, in effect, that, as in many private pension plans, the older worker receive credit for his past service and acquire rights to the full rate of benefits now.

TABLE 2.—*Illustrative old-age benefits under present formula<sup>1</sup> and that proposed by Advisory Council<sup>2</sup>*

[NOTE.—Potential beneficiary in covered employment continuously from Jan. 1, 1937, to date shown]

Average monthly wage	Basic amount *		Entitlement date					
			Jan. 1, 1949 (12 years of coverage)		Jan. 1, 1957 (20 years of coverage)		Jan. 1, 1977 (40 years of coverage)	
	Present law	Advisory Council proposal	Present law	Advisory Council proposal	Present law	Advisory Council proposal	Present law	Advisory Council proposal
\$50-----	\$20.00	\$25.00	\$22.40	\$25.00	\$24.00	\$25.00	\$28.00	\$25.00
\$75-----	22.50	37.50	25.20	37.60	27.00	37.50	31.50	37.50
\$100-----	25.00	41.25	28.00	41.25	30.00	41.25	35.00	41.25
\$125-----	27.50	45.00	30.80	45.00	33.00	45.00	38.50	45.00
\$150-----	30.00	48.75	33.60	48.75	36.00	48.75	42.00	48.75
\$200-----	35.00	56.25	39.20	56.25	42.00	56.25	49.00	56.25
\$250-----	40.00	63.75	44.80	63.75	48.00	63.75	56.00	63.75
\$300-----	40.00	71.25	44.80	71.25	48.00	71.25	56.00	71.25
\$350-----	40.00	78.75	44.80	78.75	48.00	78.75	56.00	78.75

<sup>1</sup> 40 percent of the first \$50 of the average monthly wage plus 10 percent of the next \$200, increased by 1 percent of the sum of the foregoing for each year of coverage.

<sup>2</sup> 50 percent of the first \$75 of the average monthly wage plus 15 percent of the next \$225.

<sup>3</sup> Under present law, the benefit amount without the increment for years of coverage; under the Advisory Council's proposal, the amount payable.

<sup>4</sup> Maximum average monthly wage used in computing benefits under present law is \$250.



A major draw-back in liberalizing a benefit formula that contains an increment lies in the danger that benefits in future years will be excessively high. By eliminating the increment, the benefits paid now can be more adequate than would seem feasible if the level of benefits were also to be raised automatically in future years by the application of an increment in the formula.

### 15. Increased Survivor Benefit

*To increase the protection for a worker's dependents, survivor benefits for a family should be at the rate of three-fourths of the primary insurance benefit for one child and one-half for each additional child, rather than one-half for all children as at present. The parent's benefit should also be increased from one-half to three-fourths. Widows' benefits should remain at three-fourths of the primary insurance benefit*

Adoption of this recommendation would serve mainly to provide higher benefits for children of deceased workers, since few parents of insured workers are eligible for benefits. Families consisting of young children and widowed mothers would benefit particularly from this recommendation. Studies made by the Bureau of Old-Age and Survivors Insurance in 1940-42 indicate that this beneficiary group is the one most in need of benefit increases. Of the widows with entitled children, 44 percent—a larger percentage than for any other beneficiary type—were found to have insufficient income for a maintenance level of living<sup>9</sup> and had net assets of less than \$2,500. Of the widows with three or more children, 73 percent had to live below this maintenance level.

Under the present program, the benefit rates of family groups of the same size vary, before the application of the maximums, in ways unrelated either to need or to insurance principles. There are three types of monthly benefits, in addition to the primary insurance benefit, which an individual may receive without other benefits being payable in the same family group. An aged widow as a sole beneficiary receives three-fourths of the primary insurance benefit, and the survivor benefit payable to one child or to one dependent parent of a deceased insured worker equals one-half the primary benefit. Family groups with two beneficiaries may receive one and one-half times the primary benefit (husband and wife), one and one-fourth times the primary benefit (widow and child), or the same amount as the primary benefit (two children or two dependent parents). Families with three beneficiaries may receive twice the primary benefit (retired worker, wife, and child), or one and three-fourths times the primary benefit (widow and two children), or one and one-half times the primary benefit (three children).

There is no good reason for these differentials in benefit rates. The Council's recommendation would result in a uniform ratio to the primary benefit for all survivor benefits paid to a sole beneficiary and for all two-person and three-person beneficiary groups, except for those consisting only of children.

<sup>9</sup> The standard used in this study was based on the WPA budget for a maintenance level of living and was found to have been very close to the relief standard. In the cities investigated, it ranged from \$1,052 a year in Philadelphia-Baltimore to \$1,145 in Los Angeles for a widow and two children (aged 10 to 15).



## 16. Dependents of Insured Women

*To equalize the protection given to the dependents of women and men, benefits should be payable to the young children of any currently insured<sup>10</sup> woman upon her death or eligibility for primary insurance benefits. Benefits should be payable also (a) to the aged, dependent husband of a primary beneficiary who, in addition to being fully insured, was currently insured at the time she became eligible for primary benefits, and (b) to the aged, dependent widower of a woman who was fully and currently insured at the time of her death*

Under the present program, insured women lack some of the rights which insured men can acquire. Thus, when an insured married woman dies or retires, monthly benefits can seldom be paid to her children on the basis of her wage record and are never payable to her husband. If she has been working steadily before her death or retirement, the Council believes her participation in the insurance program should carry protection against the loss of her earnings, which presumably have been an important part of the family income.

The changes proposed by the Council would mainly affect orphaned children. At present, young children of a deceased insured woman can receive monthly benefits based on her wage record only if the father has died or if the child was not living with his father and had been supported by his mother. Under our proposal, monthly benefits would be payable to the young children of any woman who died currently insured, in recognition of the fact that the earnings of a working wife are an important contribution toward the support of the family.

Supplementary child's benefits should be payable to the young children of any retired woman who was currently insured when she attained age 60. If both husband and wife are primary beneficiaries, however, the child would receive only the benefits based on the larger of the two wage records. In the majority of such instances, the child's benefits would thus be based on the father's wage record rather than on the mother's, but the mother's insurance should be the basis of the benefit if it would yield a larger addition to the family's benefit income. Since very few women aged 60 or over have children under age 18, however, supplementary child's benefits will be payable with respect to retired women in relatively few cases.

We also believe that a widower who was dependent on his fully and currently insured wife at the time of her death should receive a benefit based on her wage credits when he attains age 65, but as is now the case for aged widows, he should receive his widower's benefit only if it is larger than the primary benefit based on his own earnings.

Similarly, supplementary benefits should be payable to the dependent husband (at age 65 or over) of a female primary beneficiary who was currently insured at the time she attained age 60. These husband's benefits would be comparable to the present wife's benefits for wives of male primary beneficiaries. Such benefits will be payable in relatively few cases, however, because the man would receive only the larger of the husband's benefit or his own primary benefit.

<sup>10</sup> To be currently insured, a worker must have had 6 quarters of coverage within the period consisting of the quarter in which he died and the 12 quarters immediately preceding such quarter.

Except in the case of family situations in which supplementary or survivor benefits are payable under present law, we advocate that supplementary or survivor benefits be payable only on the wage record of a woman who was currently insured on her attainment of age 60 or her death. A woman who has not worked in at least half the calendar quarters of the 3 years immediately preceding her retirement or death is not likely to have been responsible for even partial support of her family. If she is fully but not currently insured, all her gainful employment will in most cases have antedated her marriage or the birth of her children, and her death will mean no loss of income for the family.

The cost of paying the proposed supplementary and survivor benefits to dependents of women workers will be very small. Relatively few aged dependent husbands and widowers or children of retired women workers will qualify for benefits, for most of the men will be eligible for higher primary benefits in their own right and few aged women have children under 18. Although benefits to children of deceased insured younger women will be paid more frequently, they will cost considerably less than 0.1 percent of pay rolls.

#### 17. Maximum Benefits

*To increase the family benefits, the maximum benefit amount payable on the wage record of an insured individual should be three times the primary insurance benefit amount or 80 percent of the individual's average monthly wage, whichever is less, except that this limitation should not operate to reduce the total family benefits below \$40 a month*

The Advisory Council believes that the wife of a retired beneficiary and each of his children under age 18 should receive 50 percent of the primary insurance benefit, the same proportion as under the present program. According to recommendation 15 (p. 37), however, the widow and the first child of a deceased insured worker would each receive 75 percent of the primary insurance benefit, while each additional child would receive 50 percent. The total monthly amount of benefits payable when deceased insured workers leave very large families might thus be excessive unless some maximum limits the total monthly amount of benefits payable on the basis of a single wage record.

Under present law, whenever the total of all monthly benefits payable with respect to the wage record of an individual exceeds (1) \$85, or (2) twice the primary benefit amount, or (3) 80 percent of the wage earner's average monthly wage, the total must be reduced to the least of these three. These limitations, however, do not operate to reduce the total family benefits below \$20 a month.

The increase in the wage base (recommendation 12, p. 31) and the changes in the benefit formula (recommendation 14, p. 34) which the Council has recommended make the \$85 maximum too restrictive. The average primary insurance benefit under our proposals will be about \$50 and the maximum primary insurance benefit will be \$78.75. At higher levels of average monthly wages (about \$200), full benefits could not be paid to the wife of a primary beneficiary or to a widow and

one child if the \$85 maximum were retained. If the primary beneficiary also had a minor child, full benefits could not be paid to the family even at average monthly wages of about \$110. The majority of family benefits would be reduced by this dollar maximum, and much of the value of a family benefit system would be lost. To maintain a proper recognition of family need, the \$85 maximum limitation must be removed.

Moreover, it is unnecessary in our opinion to place any specific dollar limit on the benefit amount. The other maximums we propose will serve to keep benefits at reasonable levels. The highest payments that can be made under our proposals are justified by the large amount of the worker's contributions as well as by the large number of his dependent survivors.

The maximum of 80 percent of the average monthly wage should be retained. The Council is convinced of the soundness of the principle that social insurance benefits should be less than the former wages of the worker covered by the program. This principle, however, should not be applied to reduce total family benefits below \$40 a month. A widow and two children should receive an amount based on the full minimum primary benefit (recommendation 18, p. 41), as they can at present, even though the amount exceeds 80 percent of the insured worker's average monthly wage.

The Council recommends an additional maximum of three times the primary benefit. The present maximum of twice the primary benefit is too restrictive. It reduces the family benefits of larger families in the moderate income groups more sharply than do either of the other maximums in the present program. Probably few groups for whom more liberal benefits should be recommended are in greater need of additional income than are these larger families. The hardship to the children is intensified by the fact that, by their very numbers, they have limited their parents' ability to make other savings from their moderate wages.

The cost of raising the maximum benefit payment from twice the primary insurance benefit to three times that benefit will not be great. This maximum will seldom affect a family containing a retired worker, for it can apply only if he has a wife entitled to wife's benefits and more than one minor child, or if he has three minor children. Among families of survivor beneficiaries, only about 6 percent are large enough to receive more in benefits under the maximum of three times the primary benefit than under a maximum of twice the primary.<sup>11</sup> This 6 percent, however, includes more than 20 percent of the survivor families in which children are entitled to benefits. The liberalization we propose would be extremely significant to the welfare of the relatively small number of families it would affect.

Under our proposals, in no case will any group of survivors receive more than 80 percent of the average monthly wage, unless entitled to the minimum benefit, and when that average wage exceeds \$225, our proposed maximum of three times the primary insurance benefit will become effective and will reduce the total monthly benefits for the family below 80 percent of the average wage.

<sup>11</sup> A maximum of twice the primary benefit would apply to survivor benefits when the deceased insured worker leaves a widow and three or more minor children or more than three minor children and no widow.



TABLE 3.—*Maximum amounts of benefits payable under the present law<sup>1</sup> and under Advisory Council's proposal,<sup>2</sup> at various levels of average monthly wage, to survivor families consisting of a widow and 1 or more child beneficiaries*

Average monthly wage	Applicable provisions	Primary insurance benefit	Maximum family benefit	Benefit amount payable to				
				Widow	First child	Second child	Third child	Fourth child
\$50	Present law	\$22.00	\$40.00	\$16.50	\$11.00	\$11.00	\$1.50	
	Advisory Council	25.00	40.00	18.75	18.75	2.50		
\$75	Present law	24.75	49.50	18.56	12.38	12.38	6.18	
	Advisory Council	37.50	60.00	28.13	28.13	3.74		
\$100	Present law	27.50	55.00	20.63	13.75	13.75	6.87	
	Advisory Council	41.25	80.00	30.94	30.94	18.12		
\$125	Present law	30.25	60.50	22.69	15.13	15.13	7.55	
	Advisory Council	45.00	100.00	33.75	33.75	22.50	10.00	
\$150	Present law	33.00	66.00	24.75	16.50	16.50	8.25	
	Advisory Council	48.75	120.00	36.56	36.56	24.38	22.50	
\$200	Present law	38.50	77.00	28.88	19.25	19.25	9.62	
	Advisory Council	56.25	160.00	42.19	42.19	28.13	28.13	\$19.36
\$225	Present law	41.25	82.50	30.94	20.63	20.63	10.30	
	Advisory Council	60.00	180.00	45.00	45.00	30.00	30.00	30.00
\$250	Present law	44.00	85.00	33.00	22.00	22.00	8.00	
	Advisory Council	63.75	191.25	47.81	47.81	31.88	31.88	31.87
\$300	Advisory Council	71.25	213.75	53.44	53.44	35.63	35.63	35.61
\$350	Advisory Council	78.75	236.25	59.06	59.06	39.38	39.38	39.37

<sup>1</sup> It is assumed that the insured worker had 10 increment years. Maximum family benefit is least of: (1) 80 percent of average monthly wage, (2) twice the primary insurance benefit, or (3) \$85. Widow receives three-fourths of primary benefit; each child receives one-half of primary benefit.

<sup>2</sup> Assumes benefit formula in Advisory Council's proposals. Maximum family benefit is lesser of: (1) 80 percent of average monthly wage, or (2) 3 times the primary insurance benefit. Widow and first child each receive three-fourths of primary benefit. Each additional child receives one-half of primary benefit.

## 18. Minimum Benefit

*The minimum primary insurance benefit payable should be raised to \$20*

The present minimum primary benefit of \$10 is too small to serve any social purpose. If the coverage of the program is extended to include nearly all types of gainful employment, this minimum should be raised to \$20. With a \$20 minimum primary benefit a widow, parent, or the first child survivor beneficiary in a family would receive minimum monthly benefits of \$15, and a wife or any child beneficiary after the first would have a minimum monthly benefit of \$10.

The minimum benefit is necessarily limited by the previous standard of living of the lowest wage group covered by the program, for it seems undesirable to pay social insurance benefits which would give retired persons a higher income than they previously had, or enable them to maintain a higher standard of living than is possible for others in the community who are employed at work comparable to that on which the benefits are based. A social insurance system cannot appropriately attempt to correct, after retirement, the basic problems of low living standards stemming from inadequate wages and sporadic employment.

Taking account of the areas where living standards and costs are the lowest and the fact that, in general, retired persons need less money than those who are employed, \$20 for a single person and \$30 for a couple is probably as high a minimum as could reasonably be allowed at the present time. These amounts, of course, are hardly large enough to meet the full cost of subsistence in any part of the country and are far below the amount needed in most parts of the United States. Only a variable benefit related to previous wages and living standards on an individual basis can provide benefits which are signifi-



cant for the higher-paid workers, without at the same time exceeding the previous earnings of some insured workers.

In a program in which the benefits represent a reasonable proportion of past wages, the minimum will be paid to very few persons, particularly if coverage is nearly universal. Even under the present method of computing benefits and the present limited coverage, persons at the minimum primary benefit levels a few decades hence would usually be married women who left covered employment after becoming permanently insured or individuals whose covered employment was part-time or intermittent.

Under the benefit formula recommended by the Council (recommendation 14, p. 34), those whose average monthly wage was at least \$40 would receive at least \$20 without operation of the minimum. Over a lifetime, nearly all persons would average wages of more than \$40 a month or would be dependent on persons who did. Consequently, only a few persons would have to have their computed benefit raised to the minimum of \$20. The minimum, however, would make a significant contribution toward the living expenses of the few beneficiaries who otherwise would receive a smaller amount, and would aid in promoting the program's objective of reducing old-age dependency to the extent that it is feasible for an insurance system to do so for short-term or very low paid workers.

The Council's recommendation on this point is conditioned on broad extension of coverage, because otherwise many persons would work for only short periods in covered employment and receive the relatively high minimum benefit. Workers who contribute regularly to a system of limited coverage should not be required to subsidize short-term workers to the extent which would result if the increased minimum were paid under limited coverage.

A \$20 minimum coupled with broad coverage would help provide a basic security at no significant additional costs and without destroying the range in benefits whereby an individual's equity in the system is related to the amount of wages he receives from covered employment.

### 19. Retirement Test

*No retirement test (work clause) should be imposed on persons aged 70 or over. At lower ages, however, the benefits to which a beneficiary and his dependents are entitled for any month should be reduced by the amount in excess of \$35 which he earns from covered employment in that month. Benefits should be suspended for any month in which such earnings exceed \$35 but, each quarter, beneficiaries should receive the amount by which the suspended benefits exceeded earnings above the exemption*

The larger the proportion of aged persons who find suitable employment, the greater the output of goods and services, and consequently the higher the standard of living in the community. In the opinion of the Advisory Council, accordingly, the work clause should not be designed to encourage persons to cease all gainful work. The chief purpose should be to prevent the payment of benefits to persons who continue working for wages at or near the level of those earned during much of their working lives; such persons have not suffered the loss of earnings against which the system insures.

The Council recognizes that the great majority of retirements are involuntary. Most workers want to continue working after age 65

even though their earnings are small. The work clause should therefore be liberalized to encourage those who can earn moderate amounts which will contribute toward their support to do so without being entirely deprived of old-age benefits. The fact that opportunities to work in noncovered employment will be practically eliminated by extension of coverage is an additional reason for liberalization.

The present program calls for suspension of benefits for any month in which the beneficiary earns wages of \$15 or more in covered employment. When a primary beneficiary works, dependents' benefits are also suspended. We propose that monthly earnings of \$35 or less should be permitted without reduction of benefit income.

The present provision, or any work clause which requires suspension of benefits for earnings in excess of a specified amount, may in some instances mean that a beneficiary has a smaller total income when he works than when he remains unemployed or does a small amount of work. This will result whenever he earns more than the exempt amount but less than the sum of that amount and the total benefits to which he and his dependents are entitled.

The Council believes that beneficiaries should not have their total income reduced because of work. Otherwise some beneficiaries may refrain from taking jobs because the only opportunities available to them would pay an amount which would result in an income loss. Furthermore, beneficiaries who take jobs will run the risk of income loss if they are unable to continue working until they have earned more than the exempt amount plus their benefits. To prevent the possibility of such losses, we propose that the beneficiary should forego only as much of his benefits as the amount by which his earnings exceed the exemption of \$35 a month.

We recommend that the beneficiary earning more than \$35 in a month should be required to report to the Social Security Administration the amount of his wages in that month. The Social Security Administration should then suspend his benefit. After the Administration receives the employer's quarterly tax return, adjustments should be made if necessary. If the amounts reported by the beneficiary for the 3 months in the quarter agree reasonably with the total quarterly wages shown for him on the employer's return, payment should be made of as much of his monthly benefits for the 3 months in question as exceeds the difference between his earnings in each of the 3 months and the exemption. Ordinarily, of course, a full-time worker will be getting wages high enough so that no adjustment need be made. This would be true if his earnings were more than the exempt amount plus his benefits. If the amounts reported by the beneficiary do not agree with his total quarterly wages shown on the employer's return and adjustments are necessary, the employer should be asked for a monthly break-down of the reported wages, and adjustments would be made on the basis of the information furnished. In view of the annual reports of the self-employed, some modification would have to be made in the application of the work clause to them.

Full benefits should be paid to all beneficiaries who are aged 70 or over, regardless of their earnings. Many old-age insurance beneficiaries undoubtedly consider any work clause a hardship and restriction on their freedom of activity. In our opinion, the savings effected by a work clause for beneficiaries who are 70 years old or more would not be significant enough to outweigh the advantage of giving some recognition to the beneficiary's desire to receive benefits without qualifica-

tion. The cost of eliminating the work clause at age 70 would be about one-third of the estimated cost of removing it for all beneficiaries. Obviously, however, not all the cost of eliminating the work clause at age 70 would be a net burden on the community. To the extent that beneficiaries would be encouraged to continue working, the elimination of the work clause would increase the output of goods and the utilization of the plant and equipment of industry.

The social-insurance system of the future will probably have to take into account, more than does the present one, both the need for the economic contribution of the aged and their desire to make that contribution. We suggest that the Federal Government establish a commission to study the broad problem of the aged in our society including employment opportunities and the adjustment of the aged to retirement. This study might well furnish the basis for additional changes in the retirement provision of the old-age and survivors insurance program.

## 20. Qualifying Age for Women

*The minimum age at which women may qualify for old-age benefits (primary, wife's, widow's, parents) should be reduced to 60 years*

Under the present program, 65 is the qualifying age for all aged beneficiaries—wives, widows, dependent parents, and retired workers. The Council recommends that the age requirement for women be reduced to 60.

Until a retired worker's wife reaches age 65, no wife's benefits are now payable. In most instances, the husband's retirement benefit and other family resources are inadequate to maintain the family. Surveys indicate that the proportion of beneficiary families with retirement income and other assets sufficient for a maintenance level of living is substantially less among those in which the wife is not entitled to a wife's benefit than among those in which she is so entitled. Although less than one-fifth of the married men who attain age 65 have a wife of the same age or older, more than half have a wife who has reached age 60. Since many workers do not retire until several years after attaining age 65, a reduction of the age requirement for wife's benefits to age 60 will permit the wives of about three-fourths of the married men who claim primary or retirement benefits to receive wife's benefits as soon as their husbands retire.

Women aged 60 or over find it practically impossible to get a job unless they have recently been employed. Aged widows and aged dependent mothers of deceased insured workers therefore should also be able to qualify for benefits at age 60. If the age requirement for women were reduced to 60 years, about two-fifths of the insured workers' widows without minor children in their care would be eligible for benefits immediately.<sup>12</sup>

If the age requirement for wives, widows, and aged dependent mothers of insured workers is lowered to 60, the same qualifying age should also apply to women who become primary beneficiaries through their own covered employment. If insured women are not made eligible for retirement benefits at age 60, benefits would be payable at an earlier age, and thus for a longer life expectancy, to the wife, widow, or mother of an insured worker who had not herself contributed directly to the program, than to a woman worker who had perhaps paid contributions for many years.

<sup>12</sup> Widows caring for a minor child of a deceased insured worker can draw benefits at any age.



## 21. Lump-Sum Benefits

*To help meet the special expenses of illness and death, a lump-sum benefit should be payable at the death of every insured worker even though monthly survivor benefits are payable. The maximum payment should be four times the primary insurance benefit rather than six times as at present*

The present provision for lump-sum benefits, which allows for a payment only if no survivors are immediately eligible for monthly benefits, evidently developed primarily from the idea of guaranteeing some return for the contributions insured workers had paid. The lump sum would serve a more useful purpose than it now does if it were payable for all deceased insured workers, regardless of the monthly benefits that might also be paid at the same time.

Monthly benefits for survivors provide only a partial replacement of the income earned by the deceased worker and are needed to meet current living expenses. No allowance is made in these monthly payments for such expenses as the cost of the last illness and burial. The need for a lump-sum death payment is therefore fully as great when monthly benefits are payable as when they are not. In fact, when survivors are immediately entitled to monthly benefits, the need for a lump-sum payment may be even greater than in other cases, since these survivors are persons who are presumed to have been currently dependent on the wages of the deceased worker.

The increase in the primary insurance benefit which the Council has recommended (recommendation 14, p. 34) would automatically result in a substantial increase in the lump-sum payment if the present formula of six times the primary insurance benefit were retained for lump-sum payments. We do not recommend a general increase in the dollar amounts of the lump-sum payment and therefore believe that the formula should be reduced to four times the primary insurance benefit.

The lump sum should be payable, as at present, to a spouse if such spouse were living with the deceased insured worker at the time of his or her death. If no spouse survives, the payment should be made to the person equitably entitled to such payment on the basis of having paid the funeral expenses. In this event the amount should be limited to the funeral expenses, if such expenses were less than the maximum of four times the primary insurance benefit.

## RECOMMENDATIONS ON FINANCING

### 22. Contribution Schedule and Government Participation

*The contribution rate should be increased to 1½ percent for employers and 1½ percent for employees at the same time that benefits are liberalized and coverage is extended. The next step-up in the contribution rate, to 2 percent on employer and 2 percent on employee, should be postponed until the 1½-percent rate plus interest on the investments of the trust fund is insufficient to meet current benefit outlays and administrative costs*

There are compelling reasons for an eventual Government contribution to the system, but the Council feels that it is unrealistic to decide now on the exact timing or proportion of that contribution. When the rate of 2 percent on employers and 2 percent on employees, plus inter-



est on the investments of the trust fund, is insufficient to meet current outlays, the advisability of an immediate Government contribution should be considered.

The present rate of contributions of 1 percent payable by employers and 1 percent by employees has remained unchanged for more than 10 years. If benefits and eligibility requirements are liberalized as the Council recommends, the contribution rate should be raised to 1½ percent each. This increase is desirable to promote public understanding of the fact that, in the long run, a close relationship exists between the rate of contribution and the size of benefits. It is desirable also to permit spacing, more or less evenly, small increases in the rate of contributions as they rise to their ultimate level. It is also fair because, at present rates, contributions fall far short of covering the value of the benefit rights that workers are acquiring.

The step-up to 2 percent should be postponed until actually needed. The Council believes that the excess of income over outgo, inevitable in the early years of the program, should be kept as low as is consistent with the contributory character of the program. Even with the increase to 1½ percent, assets of the trust fund may rise for a few years at an annual rate of about \$2,000,000,000.

For the reasons given above, the Council believes that the first step-up is needed when the liberalized program becomes effective, but we wish to emphasize that building up the trust fund is not the purpose of our proposed increase in the contribution rate, and we therefore urge that additional increases in the rate be postponed. The increase in the trust fund is an incidental result of the contribution rates, the benefit rates, and the eligibility requirements that seem to us desirable on other grounds. Unlike private insurance, a social-insurance scheme backed by the taxing power of the Government does not need full reserves sufficient to cover all liabilities.

Some people fear that additions to the trust fund will have adverse effects on the economy. Whether the economic effects of additions to the trust fund are good or bad will depend on the general economic situation and on the fiscal policies of the Government. In any circumstances, an annual surplus for a few years of as much as \$2,000,000,000 would not, in our opinion, be unduly large or unmanageable; in fact, such a surplus would be small in comparison with the amounts involved in many recent financial operations of the Government. On the other hand, the Council sees no reason to increase this surplus even further by moving to the 2-percent rate before the demands of the system actually call for such an increase.

The Council believes that the Federal Government should participate in financing the old-age and survivors insurance system. A Government contribution would be a recognition of the interest of the Nation as a whole in the welfare of the aged and of widows and children. Such a contribution is particularly appropriate, in view of the relief to the general taxpayer which results from the substitution of social insurance for part of public assistance.

The old-age and survivors insurance program starts with an accrued liability resulting from the fact that, on retirement, the present members of the labor force will not have contributed toward their benefits over a full working lifetime. Furthermore, with the postponement of the full rate of contributions recommended above, even young people who enter the labor force during the next decade will not pay the full

rate over a working lifetime. If the cost of this accrued liability is met from the contributions of workers and their employers alone, those who enter the system after the full rate is imposed will obviously have to pay with their employers more than is necessary to finance their own protection.<sup>13</sup> In our opinion, the cost of financing the accrued liability should not be met solely from the pay-roll contributions of employers and employees. We believe that this burden would more properly be borne, at least in part, by the general revenues of the Government.

Old-age and survivors insurance benefits should be planned on the assumption that general taxation will eventually share more or less equally with employer and employee contributions in financing future benefit outlays and administrative costs. The timing and exact proportion of this contribution, however, cannot be decided finally now. They will depend in part on the other obligations of the Government and the relationship between such obligations and current income. We believe that a Government contribution should be considered when the 2-percent rate for employer and employee plus interest on the investments of the trust fund is insufficient to meet current costs. To increase the pay-roll contributions above the 2-percent rate before the introduction of a Government contribution might mean that the Government contribution would never reach one-third of eventual benefit outlays, since under our low-cost estimates the annual cost of the benefits never exceeds 6 percent of pay roll even though it reaches 9.7 percent under the high estimate.

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<sup>13</sup> It is estimated that the cost of the protection for a generation of workers under the program for a full working lifetime would be from 3 to 5 percent of pay roll, while the level premium cost of the whole system including the accrued liability, is from 4.9 to 7.3 percent of pay roll.

## APPENDIXES—OLD-AGE AND SURVIVORS INSURANCE

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### APPENDIX I-A. THE OLD-AGE AND SURVIVORS INSURANCE TRUST FUND

As stated in its recommendations, the Council does not favor a full reserve plan sufficient to cover all liabilities. Under a contributory system of old-age and survivors insurance, however, qualifying requirements—even though liberal—unavoidably result in lower benefit disbursements in the early years of operation than in the later years. If contributions in the early years were no more than sufficient to cover disbursements, they would be so small in relation to benefit rights currently being established that the system could scarcely be called contributory. For example, on a strictly current-cost basis, contribution rates at present could not be set above 0.3 of 1 percent of pay roll for employers and 0.3 of 1 percent of pay roll for employees. The contributory nature of the system, therefore, inevitably develops at least a limited reserve.

This reserve has been invested in United States Government securities, which, in the opinion of the Council, represent the proper form of investment for these funds. We do not agree with those who criticize this form of investment on the ground that the Government spends for general purposes the money received from the sale of securities to that fund. Actually such investment is as reasonable and proper as is the investment by life-insurance companies of their own reserve funds in Government securities. The fact that the Government uses the proceeds received from the sales of securities to pay the costs of the war and its other expenses is entirely legitimate. It no more implies mishandling of moneys received from the sale of securities to the trust fund than it does of the moneys received from the sale of United States securities to life-insurance companies, banks, or individuals.

The investment of the old-age and survivors insurance funds in Government securities does not mean that people have been or will be taxed twice for the same benefits, as has been charged. The following example illustrates this point: Suppose some year in the future the outgo under the old-age and survivors insurance system should exceed pay-roll tax receipts by \$100,000,000. If there were then \$5,000,000,000 of United States 2-percent bonds in the trust fund, they would produce interest amounting to \$100,000,000 a year. This interest would, of course, have to be raised by taxation. But suppose there were no bonds in the trust fund. In that event, \$100,000,000 to cover the deficit in the old-age and survivors insurance system would have to be raised by taxation; and, in addition, another \$100,000,000 would have to be raised by taxation to pay interest on \$5,000,000,000 of Government bonds owned by someone else. The bonds would be in other hands, because if the Government had not been able to borrow from the Old-Age and Survivors Insurance Trust

Fund, it would have had to borrow the same amount from other sources. In other words, the ownership of the \$5,000,000,000 in bonds by the old-age and survivors insurance system would prevent the \$100,000,000 from having to be raised twice—quite the opposite from the “double taxation” that has been charged.

Under present conditions the Government is operating with a budget surplus and is not borrowing. The trustees of the Old-Age and Survivors Insurance Trust Fund, therefore, when they invest the excess income in Government securities, in effect cause Government debt to be transferred from private ownership to the Old-Age and Survivors Insurance Trust Fund. The same saving of the amount of the interest for the general taxpayer will occur in this instance as in the one described above.

The members of the Advisory Council are in unanimous agreement with the statement of the Advisory Council of 1938 to the effect that the present provisions regarding the investment of the moneys in the Old-Age and Survivors Insurance Trust Fund do not involve any misuse of these moneys or endanger the safety of the funds.



## APPENDIX I-B. ACTUARIAL COST ESTIMATES FOR OLD-AGE AND SURVIVORS INSURANCE RECOMMENDATIONS

Estimates of future costs of the old-age and survivors insurance system are affected by many factors that are difficult to determine; hence, assumptions may differ widely and yet be reasonable. Some of the factors concerning which assumptions must be made are indicated below.

### FACTORS IN ASSUMPTIONS

#### *How many persons will reach age 65*

To determine how many persons may eventually qualify for retirement benefits, it is necessary to estimate the number of men and women who can be expected to attain age 65 each year. Such estimates involve assumptions as to birth, mortality, and net immigration rates. Although fairly reliable data on fertility and mortality over long periods are available, wide variations in the next half century are possible and may cause considerable change in the size and age structure of the population. Immigration, although not recently significant, could become of great importance.

#### *How many will be eligible for benefits*

Next, the number of persons reaching age 65 who will be "insured" for benefits must be ascertained. Since insured status is based on the number and proportion of quarters in which covered workers have earnings of \$50 or more, such factors as wage levels, employment duration, unemployment—whether due to economic, health, or other conditions—labor mobility, and related matters must be taken into account, with special attention to variations by age and sex. Estimating the number of persons likely to be insured—or uninsured—at different periods involves assumptions concerning wage and salary rates by age and sex, as well as the extent and steadiness of employment.

#### *How many will retire*

Having estimated how many persons will qualify for benefits, the next query is how many will actually receive them. Since the law specifies that benefits will be withheld or reduced when the beneficiary earns more than a stated amount, it is necessary to estimate how many beneficiaries will be affected, and how many will work continuously or intermittently after the minimum retirement age. The retirement rate will depend on such factors as the level of benefits, extent of private group and individual insurance, job prospects, and the current philosophy in regard to displacement of older by younger workers.

#### *How long will benefits be paid*

It is not enough to know how many persons will be placed on the benefit rolls; the duration of their benefit payments is equally signifi-

cant. To estimate duration, mortality rates for men and women must be applied to each group entering beneficiary status to gage the number who will die each year.

*How much will be paid as retirement benefits*

This basic inquiry primarily involves application of the benefit formula to the wage histories of those eligible for benefits. Benefits depend on the "average monthly wage," which in turn depends on total wages received over a period of time. Just as in estimating the number of persons with insured status, assumptions must be made concerning sustained versus sporadic employment, wages, and the level of employment.

*How much will be paid as supplementary and survivor benefits*

To estimate the cost of benefits to survivors and dependents of insured persons, many of the same factors applying to the worker must be considered, such as birth, mortality, retirement rates, and their interlocking effect. In addition, the same problem arises of estimating the number of insured workers and the amount of their primary benefits on which the survivor and supplementary benefits will be based. Because survivor benefits are terminated when certain changes in family and age status occur, assumptions have to be made concerning the marital and parental status of the insured group. Such factors as remarriage rates of widows, marriage rates of child beneficiaries, economic dependency of parents, and existence of specified surviving relatives must also be taken into account. The "work clause" affects the benefits of survivors and dependents as well as those of retired workers.

*Adjustments*

Lastly, there remain various adjustments affecting the number and size of benefits which arise from contingent features of the law, such as reduction or increase in the average size of benefits because of minimum and maximum provisions and eligibility for concurrent benefits of different types.

Among the many assumptions necessary for the cost estimates, the following were perhaps most important:

1. *Mortality.*—The low-cost estimates assume a continuation of mortality at the present levels, while the high-cost estimates assume that mortality will decrease in the future (or in other words, that longevity will increase).

2. *Employment.*—The estimates of future costs assume that the general level of employment will be about the same as during 1944-46. Corrections have been made, however, for the temporary wartime dislocations in the labor force. A "normal" age and sex distribution for the labor force has been assumed.

3. *Wage levels.*—With a \$3,000 maximum wage base, it is assumed that four-quarter male workers earn \$2,400 per year, while for women the corresponding figure is \$1,440. For persons working in less than four quarters, these averages were reduced in the proportions shown in actual wage records. With a maximum wage limit of \$4,200, these two figures for four-quarter workers become \$2,600 and \$1,450, respectively.

4. *Retirement rates.*—The old-age and survivors insurance program has been in effect too short a time to give much useful evidence as to

the probable retirement rates of the future. Moreover, the war has made the few years of experience with retirement rates under old-age and survivors insurance a poor basis for projection. Furthermore, the larger retirement benefits provided by the proposed plan, as contrasted with the relatively inadequate benefits under the present system, might cause more persons to retire voluntarily. Since little is really known on this subject, the estimates are based on two widely different assumptions so as to encompass a wide range of possibilities.

It is assumed under the low-cost estimates that under a mature program about 45 percent of the eligible men aged 65 to 69 would get benefits, while for women aged 60 to 69 about 70 percent of those eligible would get benefits (all eligible persons beyond age 70 would receive benefits regardless of work). For the high-cost estimate the corresponding figures are 60 percent for men and 80 percent for women. In the early years all these figures are materially lower, since more of those eligible have recently been in employment and would thus be more likely to continue at work.

#### THE ESTIMATES

The tables that follow (pp. 56-59) summarize actuarial cost estimates for the expanded old-age and survivors insurance program recommended by the Advisory Council.

In table 4, the benefit costs are in terms of percentage of pay roll for various future calendar years, starting in 1955 and running up to the "ultimate" year 2000, when benefit disbursements will more or less level off; "level premium"<sup>1</sup> costs are also shown.

Table 5 gives comparable data in absolute dollar amounts. In both these tables the costs are shown as increases or decreases in the cost arising under the present program, taking successive account of each major change recommended by the Council. The order in which these various changes are considered determines in many instances how much of the increase in cost is attributed to a specific recommendation. For example, the increased cost arising from the revised work clause follows the estimates of cost changes resulting from extension of coverage, but precedes the estimated effect of the new benefit formula. Thus, the estimated cost of abolishing the retirement test for all beneficiaries aged 70 and over represents increases in benefit payments based on the present formula. If the cost effect of the new benefit formula had preceded the figures on the effect of the proposed new work clause, the increase in cost arising from the new work clause would have been greater, since it would have been based on the payment of higher benefits to those aged 70 and over. On the other hand, considering the benefit formula first would result in showing the cost effect of the new benefit formula as smaller than it is shown in these tables because the present work clause would prevent the payment of benefits to many of those over age 70. The order in which the changes are considered does not, of course, affect the final or net cost of the recommendations.

<sup>1</sup> The level-premium contribution rate is the rate which would support the system into perpetuity if collected from the first year. It is higher than the contribution rate which would be required to pay the benefits of any one generation of workers because it covers also the cost of the accrued liability resulting from the payment of full benefits to workers already middle-aged or older at the time the system goes into effect. In computing the level premium rate it is assumed that benefit payments and taxable pay rolls remain level after the year 2000 and that accumulated reserves earn interest at the rate of 2 percent.



Table 6 presents the estimated costs as a percentage of pay roll for each of the various categories of benefits under the proposed expanded plan, along with the "level premium" cost for each category. Table 7 gives the corresponding dollar figures.

Table 8 presents the estimated taxable pay rolls under the present coverage (with the \$3,000 maximum wage) and under the expanded coverage (with the \$4,200 maximum wage). These estimates are based on the employment and wage levels of 1944-46 which are somewhat below present levels but still represent a relatively high level of economic activity.

In table 9 are estimates of the percentage of persons in various future years who will be fully insured when they attain age 65, both for the present limited coverage and for complete extension of coverage under the eligibility conditions recommended by the Council. Table 10 shows estimates of the percentage of all persons aged 65 and over who will be fully insured in various future years.

Table 11 presents the estimated operations of the trust fund under the expanded program recommended by the Advisory Council. The proposed program is assumed to become effective at the beginning of 1949, when the trust fund will probably amount to about \$10.5 billion. Further, it is assumed that the benefit disbursements in 1949 will bear the same relationship to the expanded covered pay roll as the benefit disbursements under the present system bear to the present limited-coverage pay roll. The effect of immediate changes in benefits paid (principally, the liberalized benefit formula and the reduction in the retirement age for women) is thus assumed to be relatively equal to the proportionate increase in pay roll (namely, about 60 percent). Thereafter, until 1955, the increase in disbursements will at first be gradual and then more rapid as workers in the newly covered groups acquire insured status.

The estimates of trust fund operations have been developed under the contribution schedule which most nearly approximates the Council's proposals, namely, a combined employer-employee rate of 2 percent until 1948, 3 percent in 1949-56, and 4 percent thereafter until the Government contribution has reached one-half the revenue from the combined employer-employee contribution, at which point under the high-cost estimate further increases are assumed in the combined employer-employee rate. This contribution-rate schedule, in contrast with the present law (combined rate of 2 percent through 1949, 3 percent in 1950-51, and 4 percent thereafter), increases the rate immediately on establishment of the expanded program, but defers the next increase until 1957, which is about when disbursements may exceed income at the 3-percent combined rate (this is anticipated in 1959 under the low estimate and in 1955 under the high estimate).

The Council has recommended that the Government contribution be postponed until the income of the trust fund at the combined 4-percent contribution rate for employers and employees first falls short of meeting the outgo. The Government contribution will be of such amount as to maintain the trust fund at its highest point without any decrease thereafter (disregarding any minor, short-range cyclical fluctuations). It is assumed that the Government contribution will not be allowed to exceed one-half the combined employer-employee contributions. Under the low-cost estimate the 4-percent employer-employee rate is sufficient to prevent the Government contribution



from exceeding one-half, but under the high-cost estimate the rate would have to be increased to 5 percent in 1972-80, 6 percent in 1981-89, and 7 percent thereafter. These specific years are the ones which reflect the assumptions of the high-cost estimates. It is not expected, of course, that all these assumptions will turn out to be the correct ones and that the years specified will be the ones in which increases in rates necessarily have to be made.

Since both the low-cost and the high-cost estimates assume a high future level of economic activity, the pay rolls are substantially the same under the two estimates in the early years (see table 8). Accordingly, there is little difference in the contribution income in the two estimates. The assumptions which affect benefits, however, have widely different effects even in the early years of the program. The range of error in the estimates, nevertheless, may be fully as great for contributions as it is for benefits.

The effect of the new eligibility conditions and the "new start" in computing the average monthly wage are particularly difficult to estimate during the early years of operation. The number of persons who will qualify and get benefits on the new basis is more uncertain when we are dealing only with older workers and the qualifying work period is relatively short. While an attempt has been made to allow for this very important factor, the costs shown here for 1955, and possibly for 1960, may, nonetheless, be overstatements.

Table 12 gives the results of an actuarial study to determine the hypothetical "current" experience under the plan recommended by the Advisory Council if that plan had been in effect long enough (say, for a century) to be relatively "mature"—that is, to have a relatively stable number of qualified beneficiaries.<sup>2</sup>

While more precise data are available on many of the factors which enter into these estimates since they deal with the present or past rather than the future, it is still necessary to show some range in the figures because some factors are unknown; for example, the extent of retirement if the proposed benefits were available to all the current aged population.

Table 12 gives low and high estimates of the number of beneficiaries and benefit disbursements by type of benefit. In estimating the number of beneficiaries, account has been taken of past trends in employment, mortality, etc. As a result, the table shows relatively fewer female primary beneficiaries than there will be in the future if the upward trend in employment of women continues.

Under assumption A, the estimated benefit disbursements are assumed to be based on past trends in wages, which have been sharply upward during the past century. For the most part, the benefits paid currently would therefore reflect the lower wages of the past, hence the amounts involved are relatively low in terms of current wages and price levels. Thus, the average primary benefit would be about \$30-\$35, while an average on the basis of 1948 earning levels would be about \$50-\$55 or approximately 50 percent higher. Nevertheless, the average of the primary benefits on which some of the survivor benefits are based would be somewhat higher than \$30-\$35, because it would be related to the recent earnings of young workers

<sup>2</sup> In a fully mature program the number of beneficiaries added to the rolls would equal the number dropped by death, remarriage, attainment of age 18, or similar reasons. The program could not be fully mature, however, until the population is also stable or mature—i. e., births equal deaths and age distributions are stable.

who leave survivors eligible for widow's current and child survivor benefits.

Under assumption B, the average wage or benefit provisions of the program or both are assumed to have been continuously modified in such a way as to take full account of the increases which have occurred in wage levels and to provide benefits related at all times to current wage levels.

The total number of beneficiaries receiving monthly payments during an average month of 1948 under the assumptions of this study would be about 10.3-12.6 million. Among them, 3.4-4.1 million would be men aged 65 and over (representing 65-80 percent of the 5.1 million men aged 65 and over in the United States), while 5.2-6.2 million would be women aged 60 and over (representing 60-75 percent of the 8.5 million women aged 60 and over in the population). The aged who would not be receiving benefits would represent, for the most part, those still at work or those whose husbands were still working. There would also be some aged persons who failed to qualify because of lack of sufficient employment resulting from disability and other causes.

Under the assumption that benefits are based on the wages actually paid in the past, the total benefit disbursements in 1948 would range from 3.4 to 4.2 billion dollars, representing from 2.4 to 3.0 percent of current pay rolls which would be about \$140,000,000,000 <sup>3</sup> if all occupations were covered by the program. On the other hand, under the assumption that benefits are always based on current wage levels, the disbursements would range from 5.7 to 6.9 billion dollars, or in other words from 4.1 to 4.9 percent of pay roll. These estimates are considerably lower than the estimates of the ultimate cost of the proposed plan which is shown on table 4 to be from 5.9 to 9.7 percent of pay roll. The difference is explained largely by the increasing number of the aged in the population.

It should be noted that in all the estimates the coverage is assumed to be universal and to include railroad and all governmental employment, the goal the Council hopes will be attained.

<sup>3</sup> This figure is higher than those shown for expanded coverage in 1955, table 8, appendix I-B, because the figures in table 8 are based on the somewhat lower wage rates of 1944-46.

TABLE 4.—*Estimated annual cost of expanded program recommended by Advisory Council, for specified years, by major changes, in terms of percentage of pay roll*

Calendar year	Cost of present program	Increase in cost arising from—							Net cost of ex- panded plan
		Extension of coverage	Age 60 for women	Revised lump-sum <sup>1</sup>	Revised work clause	Higher rate for first child <sup>2</sup>	Additional benefits in re women <sup>3</sup>	New benefit formula <sup>4</sup>	
Low-cost estimate <sup>1</sup>									
1955.....	1.31	—0.34	0.11	-----	0.43	0.04	0.02	0.82	2.39
1960.....	1.75	— .28	.15	—0.01	.61	.06	.02	1.06	3.26
1970.....	2.56	— .28	.29	— .01	.62	.06	.02	1.20	4.46
1980.....	3.33	— .33	.42	— .01	.67	.07	.03	1.12	5.30
1990.....	4.02	— .47	.46	— .02	.71	.07	.03	1.03	5.83
2000.....	4.19	— .42	.44	— .02	.71	.07	.03	.87	5.87
Level premium <sup>6</sup>	3.26	— .38	.36	— .01	.63	.06	.03	.95	4.90
High-cost estimate <sup>1</sup>									
1955.....	1.87	—0.43	0.19	-----	0.29	0.04	0.01	1.14	3.11
1960.....	2.46	— .37	.28	—0.01	.35	.06	.02	1.28	4.07
1970.....	3.66	— .47	.47	— .01	.46	.06	.02	1.39	5.58
1980.....	5.18	— .72	.65	— .01	.67	.06	.02	1.37	7.12
1990.....	6.93	—1.14	.75	— .01	.68	.06	.02	1.34	8.63
2000.....	8.12	—1.32	.79	— .02	.78	.06	.02	1.27	9.70
Level premium <sup>6</sup>	5.66	— .91	.60	— .01	.69	.06	.02	1.26	7.27

<sup>1</sup> Based on assumption of continuation of employment and wage levels of 1944-46.<sup>2</sup> Lump-sum death payment for all deaths but only in amount of 4 times primary benefit (rather than 6 times as at present).<sup>3</sup> Including also higher rate for parent's benefit.<sup>4</sup> Supplementary and survivor monthly benefits in respect to insured women.<sup>5</sup> Including also revision in computation of average wage and higher limit on maximum annual wages counted toward benefits.<sup>6</sup> Level premium contribution rate (based on 2 percent interest) for benefit payments after 1949 and into perpetuity, not taking into account accumulated funds.TABLE 5.—*Estimated annual cost of expanded program recommended by Advisory Council, for specified years, by major changes (in millions of dollars)*

Calendar year	Cost of present program	Increase in cost arising from—							Net cost of ex- panded plan	
		Extension of coverage	Age 60 for women	Revised lump-sum <sup>1</sup>	Revised work clause	Higher rate for first child <sup>2</sup>	Additional benefits in re women <sup>3</sup>	New benefit formula <sup>4</sup>		
	Low-cost estimate <sup>1</sup>									
1955.....	\$1,046	\$173	\$138	-----	\$540	\$50	\$22	\$1,222	\$3,189	
1960.....	1,469	441	195	—\$13	662	78	26	1,647	4,505	
1970.....	2,421	772	406	—14	867	84	28	2,057	6,621	
1980.....	3,474	965	621	—15	990	103	44	2,136	8,318	
1990.....	4,509	1,066	722	—31	1,114	110	47	2,176	9,713	
2000.....	5,072	1,227	736	—33	1,188	117	50	2,064	10,421	
	High-cost estimate <sup>1</sup>									
1955.....	\$1,482	\$323	\$238	-----	\$363	\$50	\$19	\$1,675	\$4,150	
1960.....	2,062	677	366	—\$13	458	78	26	2,012	5,666	
1970.....	3,442	1,056	662	—14	648	84	28	2,457	8,363	
1980.....	5,191	1,312	947	—15	831	87	29	2,653	11,035	
1990.....	7,125	1,498	1,116	—15	1,012	89	30	2,795	13,650	
2000.....	8,463	1,711	1,182	—30	1,167	90	30	2,765	15,378	

<sup>1</sup> Based on assumption of continuation of employment and wage levels of 1944-46.<sup>2</sup> Lump-sum death payment for all deaths but only in amount of 4 times primary benefit (rather than 6 times as at present).<sup>3</sup> Including also higher rate for parent's benefit.<sup>4</sup> Supplementary and survivor monthly benefit in respect to insured women.<sup>5</sup> Including also revision in computation of average wage and higher limit on maximum annual wages counted toward benefits.

TABLE 6.—Estimated annual cost of expanded program recommended by Advisory Council, for specified years, by type of benefit, in terms of percentage of pay roll

Calendar year	Primary	Wife's <sup>1</sup>	Widow's <sup>2</sup>	Parent's	Child's	Widow's current	Lump-sum death	Total
Low-cost estimate <sup>1</sup>								
1955.....	1.24	0.28	0.29	0.03	0.34	0.11	0.10	2.39
1960.....	1.66	.36	.54	.04	.43	.13	.11	3.26
1970.....	2.27	.42	.98	.04	.47	.14	.14	4.46
1980.....	2.80	.43	1.24	.04	.49	.14	.15	5.30
1990.....	3.29	.41	1.29	.03	.50	.15	.16	5.83
2000.....	3.43	.36	1.22	.03	.51	.15	.17	5.87
Level premium <sup>3</sup> .....	2.75	.37	1.01	.03	.46	.14	.15	4.90
High-cost estimate <sup>1</sup>								
1955.....	1.85	0.39	0.30	0.05	0.31	0.12	0.09	3.11
1960.....	2.42	.48	.54	.07	.34	.13	.10	4.07
1970.....	3.43	.59	.95	.08	.30	.11	.12	5.58
1980.....	4.58	.71	1.24	.09	.27	.10	.14	7.12
1990.....	5.89	.79	1.37	.08	.24	.09	.16	8.63
2000.....	6.89	.84	1.41	.08	.22	.09	.18	9.70
Level premium <sup>3</sup> .....	4.92	.60	1.08	.08	.26	.10	.14	7.27

<sup>1</sup> Based on assumption of continuation of employment and wage levels of 1944-46.

<sup>2</sup> Including the relatively negligible amount of husband's and widower's benefits.

<sup>3</sup> Level premium contribution rate (based on 2 percent interest) for benefit payments after 1949 and in perpetuity, not taking into account accumulated funds.

TABLE 7.—Estimated annual cost of expanded program recommended by Advisory Council, for specified years, by type of benefit (in millions of dollars)

Calendar year	Primary	Wife's <sup>1</sup>	Widow's <sup>2</sup>	Parent's	Child's	Widow's current	Lump-sum death	Total
Low-cost estimate <sup>1</sup>								
1955.....	\$1,657	\$378	\$383	\$41	\$456	\$144	\$130	\$3,189
1960.....	2,291	500	739	54	588	178	155	4,505
1970.....	3,372	623	1,451	61	704	207	203	6,621
1980.....	4,400	679	1,944	62	771	225	237	8,318
1990.....	5,484	675	2,144	57	841	243	269	9,713
2000.....	6,099	637	2,162	49	910	265	299	10,421
High-cost estimate <sup>1</sup>								
1955.....	\$2,468	\$517	\$400	\$68	\$421	\$154	\$122	\$4,150
1960.....	3,359	671	745	97	479	176	139	5,666
1970.....	5,134	880	1,417	126	455	171	180	8,363
1980.....	7,094	1,101	1,920	137	413	158	212	11,036
1990.....	9,325	1,253	2,162	132	379	149	250	13,650
2000.....	10,915	1,333	2,236	127	341	142	244	15,378

<sup>1</sup> Based on assumption of continuation of employment and wage levels of 1944-46.

<sup>2</sup> Including the relatively negligible amount of husband's and widower's benefits.

TABLE 8.—Estimated taxable pay rolls under present coverage and under expanded coverage (in billions of dollars)

Calendar year	Present coverage <sup>1</sup>		Expanded coverage <sup>2</sup>	
	Low-cost estimate	High-cost estimate	Low-cost estimate	High-cost estimate
1955.....	\$80	\$79	\$134	\$133
1960.....	84	84	138	139
1970.....	95	94	149	150
1980.....	104	100	157	155
1990.....	112	103	167	158
2000.....	121	104	178	158

<sup>1</sup> Based on \$3,000 maximum creditable wage.

<sup>2</sup> Based on \$4,200 maximum creditable wage.



TABLE 9.—*Estimated percentage of persons attaining age 65 in various future years who will be fully insured, if high employment conditions prevail*

Calendar year	Complete extension of coverage		Present coverage	
	Men	Women	Men	Women
1955.....	66-74	12-17	46-52	8-11
1960.....	74-84	16-23	50-58	10-14
1970.....	81-91	22-31	61-71	15-20
1980.....	84-93	30-38	72-82	24-32
1990.....	86-96	43-52	74-84	36-46
2000.....	88-96	50-60	74-84	40-50

TABLE 10.—*Estimated percentage of persons aged 65 and over in the population of various future years who will be fully insured, if high employment conditions prevail*

Calendar year	Complete extension of coverage		Present coverage	
	Men	Women	Men	Women
1955.....	57-66	10-13	39-44	6- 7
1960.....	69-81	13-17	44-49	7-10
1970.....	76-86	17-25	54-62	10-14
1980.....	81-91	23-31	64-73	16-22
1990.....	84-94	33-40	72-81	27-34
2000.....	86-95	43-51	74-84	35-43

TABLE 11.—*Estimates relating to size of trust fund under expanded program recommended by Advisory Council (in millions of dollars)*

Calendar year	Contributions		Benefit payments	Adminis- trative expenses	Interest <sup>1</sup> on Fund	Increase in Fund	Fund at end of year
	Employer- employee <sup>1</sup>	Government					
	Low-cost estimate						
1955.....	\$3, 833	-----	\$3, 189	\$87	\$451	\$1, 008	\$23, 276
1960.....	5, 279	-----	4, 505	109	581	1, 246	29, 950
1970.....	5, 683	\$419	6, 621	146	665	0	33, 645
1980.....	6, 003	1, 825	8, 318	175	665	0	33, 645
1990.....	6, 370	2, 877	9, 713	199	665	0	33, 645
2000.....	6, 792	3, 177	10, 421	213	665	0	33, 645
	High-cost estimate						
1955.....	\$3, 823	-----	\$4, 150	\$128	\$338	<sup>2</sup> - \$117	\$16, 999
1960.....	5, 318	\$163	5, 665	159	344	0	17, 362
1970.....	5, 726	2, 506	8, 363	213	344	0	17, 362
1980.....	7, 408	3, 548	11, 035	265	344	0	17, 362
1990.....	10, 209	3, 413	13, 650	316	344	0	17, 362
2000.....	10, 606	4, 777	15, 378	349	344	0	17, 362

<sup>1</sup> Joint contribution schedule assumed is as follows: Low-cost estimate, 3 percent for 1949-56 and 4 percent thereafter. High-cost estimate, 3 percent for 1949-56; 4 percent for 1957-71; 5 percent for 1972-80; 6 percent for 1981-89; and 7 percent thereafter.

<sup>2</sup> Fund reaches a peak in 1954 and then declines for 2 years, but thereafter increases to another peak in 1959.

<sup>3</sup> Interest is figured at 2 percent on average balance in fund during year but is payable at end of year. After fund reaches maximum size the interest income is slightly less than 2 percent of the balance at the end of the year as shown in the last column, since the fund decreases slightly during the year. The interest payable at the end of the year brings it back to the level shown.

TABLE 12.—*Estimated beneficiaries and disbursements in 1948 under expanded program recommended by Advisory Council, if the plan had been in effect for a century, under two assumptions*<sup>1</sup>

Type of benefit	Number of beneficiaries (in thousands)		Benefit disbursements <sup>2</sup> (in millions)			
			Assumption A		Assumption B	
	Low	High	Low	High	Low	High
Total.....			\$3, 400	\$4, 160	\$5, 720	\$6, 930
Primary.....	4, 780	6, 060	1, 820	2, 290	3, 050	3, 810
Wife's.....	1, 220	1, 280	250	260	430	450
Widow's.....	2, 430	2, 650	660	710	1, 270	1, 380
Parent's.....	100	270	20	50	30	100
Widow's current.....	330	420	120	160	170	220
Child's.....	1, 470	1, 940	430	570	500	780
Lump-sum death.....	830	930	100	120	180	190

<sup>1</sup> Benefit-disbursement estimates are shown on the basis of 2 different assumptions:

A. Benefits determined under average wage provisions and benefit formula proposed by Council using estimates of wages actually paid over the last 100 years.

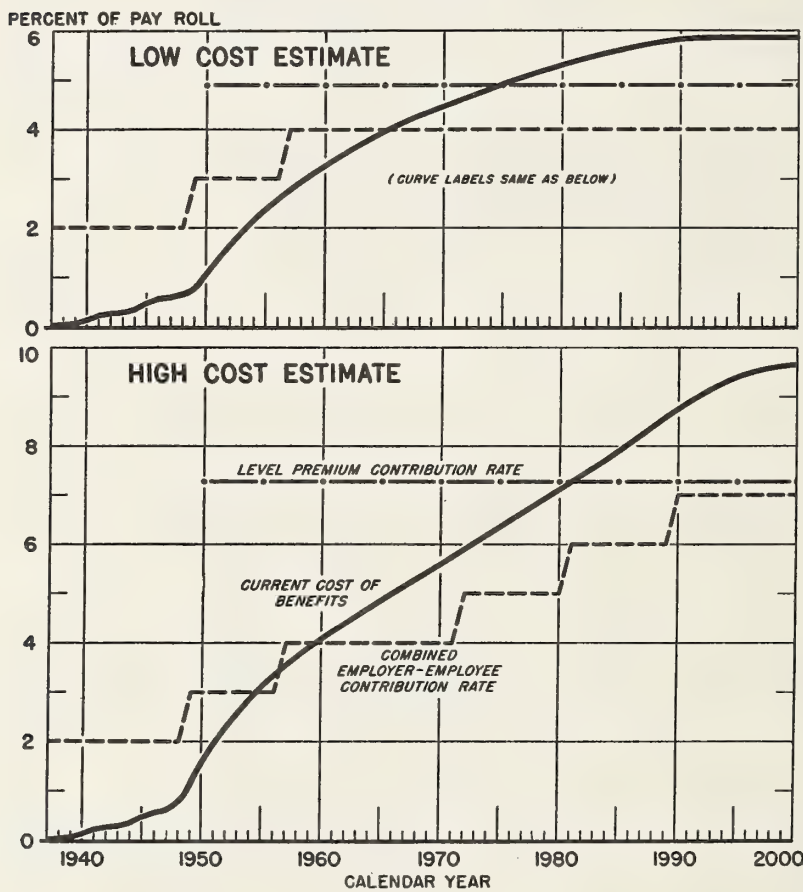
B. Benefits determined under average wage and benefit provisions continuously revised so that benefits are related to current wage levels.

<sup>2</sup> Benefit disbursements in percentage of pay rolls would be as follows:

Assumption A:		Assumption B:	
Low.....	2.4	Low.....	4.1
High.....	3.0	High.....	4.9

CHART A

ESTIMATED COST OF EXPANDED PROGRAM  
RECOMMENDED BY ADVISORY COUNCIL, IN TERMS OF  
PERCENTAGE OF PAY ROLL

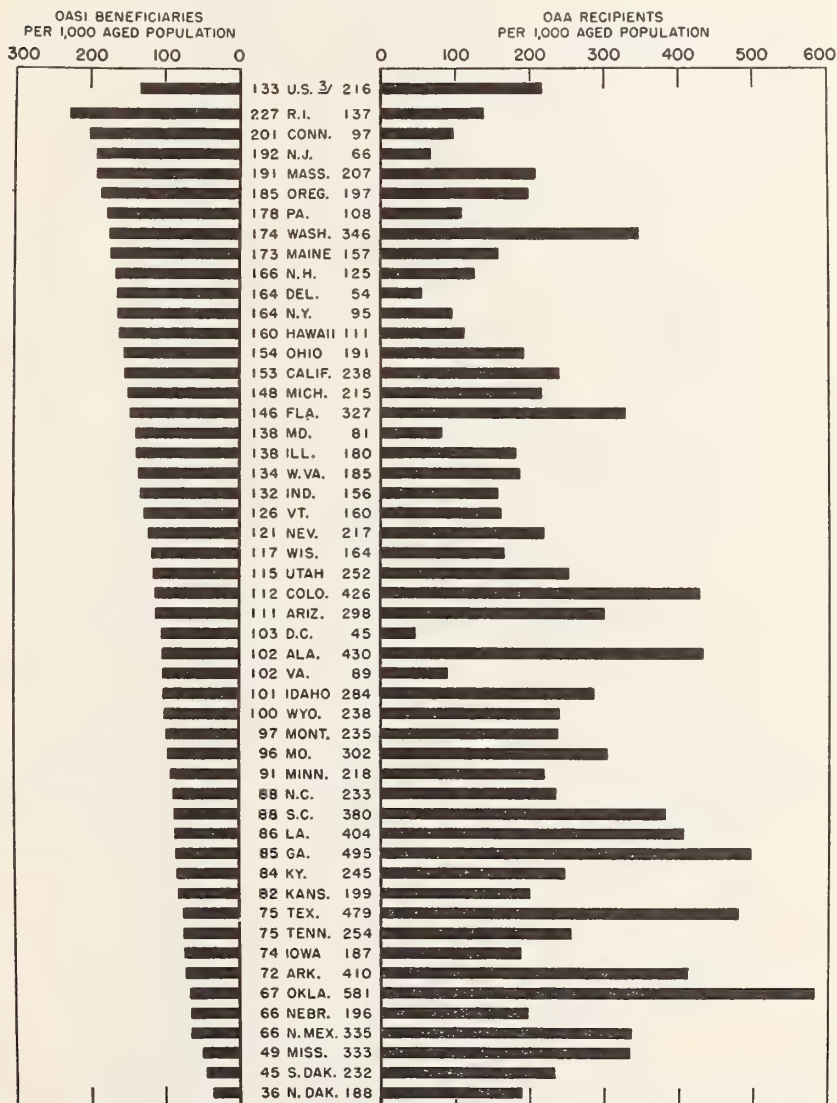


NOTE: ESTIMATES BASED ON ASSUMPTION OF CONTINUATION OF EMPLOYMENT AND WAGE LEVELS OF 1944-46.  
NOTE: SEE TEXT FOR DESCRIPTION OF TERMS.

# APPENDIX I-C

## CHART B

NUMBER OF AGED PERSONS RECEIVING BENEFITS UNDER OLD-AGE AND SURVIVORS INSURANCE<sup>1</sup> AND NUMBER RECEIVING OLD-AGE ASSISTANCE PER 1,000 PERSONS AGED 65 YEARS AND OVER, BY STATE,<sup>2</sup> JUNE 1948



<sup>1</sup> Primary, wife's, widow's, and parent's benefits in current-payment status at end of June.

<sup>2</sup> Aged population as of July 1, 1948, estimated by Social Security Administration.

<sup>3</sup> Includes Hawaii.



# RECOMMENDATIONS FOR SOCIAL SECURITY

## APPENDIX I-D. FAMILY BENEFITS UNDER PRESENT PROGRAM, DECEMBER 1947

TABLE 13.—Percentage distribution of beneficiary families by monthly amount of family benefits in current-payment status at end of 1947, for each specified family group in receipt of benefits

[Based on 20-percent sample. Average benefits shown to the nearest 10 cents. Corrected to May 20, 1948]

Monthly family benefit amount	Retired worker only		Retired worker and wife	Retired worker and 1 child	Aged widow	Widowed mother and children			Children only			
	Male	Female				1 child	2 children	3 or more children	1 child	2 children	3 children	4 or more children
Total number <sup>1</sup>	470,800.0	118,800.0	269,000.0	10,500.0	164,200.0	09,100.0	38,300.0	22,600.0	83,100.0	37,400.0	15,400.0	20,100.0
Total percent	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Less than \$10	24.3	46.1	10.4	10.7	0.8	0	0	0	5.1	0.1	0	0
\$10 to \$19.99	47.6	47.1	10.3	11.6	49.5	8.6	4.5	4.5	90.8	20.6	12.6	0.3
\$20 to \$29.99	22.3	5.8	31.9	35.8	39.7	21.6	5.9	12.3	4.1	50.8	12.6	18.0
\$30 to \$39.99	5.9	1.0	25.3	23.4	10.0	33.7	14.8	8.2	-----	24.6	37.8	11.1
\$40 to \$49.99	-----	-----	14.0	12.4	-----	10.2	27.8	21.5	-----	63.9	23.1	24.8
\$50 to \$59.99	-----	-----	8.1	6.0	-----	-----	14.3	19.3	-----	-----	8.9	22.8
\$60 to \$69.99	-----	-----	-----	-----	-----	-----	8.0	4.7	-----	-----	2.1	14.9
\$70 to \$79.99	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	6.1
\$80 to \$85.00	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	1.8
Average monthly amount per family	\$25.30	\$19.90	\$39.60	\$38.40	\$20.40	\$35.40	\$48.80	\$52.20	\$13.20	\$25.60	\$36.30	\$47.70

- <sup>1</sup> Families with retired worker, wife, and child, or retired worker and 2 or more children, or widowed mother only, or 1 or 2 aged parents not shown because too few cases in sample.
- <sup>2</sup> Widow's benefit reduced to less than \$10 by primary benefit to which widow was concurrently entitled.
- <sup>3</sup> Family benefit is less than minimum amount because one or more additional family members were entitled to benefits which were withheld at end of 1947.
- <sup>4</sup> The percentage at the \$10 minimum was 7.1 for retired male workers and 15.7 for retired female workers.
- <sup>5</sup> The percentage at the \$15 minimum was 5.9 for retired worker and wife and 6.2 for retired worker and 1 child.
- <sup>6</sup> The maximum possible in 1947 was as follows: \$22.20 for each child; \$33.30 for an aged widow; \$44.40 for a retired male or female worker; \$55.50 for a widowed mother and 1 child; \$66.60 for a retired worker and wife or 1 child; and \$77.70 for a widowed mother and 2 children.

APPENDIX I-E. MEMORANDUM BY TWO MEMBERS DISSSENTING FROM  
THE MAJORITY REPORT WITH RESPECT TO MANDATORY COVER-  
AGE OF THE TRADITIONALLY TAX-EXEMPT INSTITUTIONS

As stated in the report of the majority of the Council members, it is highly desirable to establish as complete coverage as possible of employees under old-age and survivors insurance. The majority report recognizes special problems with respect to Federal civil-service employees, railroad employees, and the employees of State and municipal governmental units. Special problems exist also and should be recognized with respect to the traditionally tax-exempt religious, charitable, and educational institutions. A reasonable method of attaining maximum coverage of their employees should be possible without doing violence to traditional tax exemption.

There is no doubt that the contributions to old-age and survivors insurance are taxes. The statutory declaration of intent that the imposition of taxes for purposes of old-age and survivors insurance is not a precedent for other taxation of religious, charitable, and educational institutions, is at best a "pious hope," because the imposition of any tax on the institution is in fact an encroachment on its tax exemption.

There is in this problem no insuperable difficulty. The method of inclusion by voluntary adherence is no more difficult than in the case of employees of other employers that require special treatment. In each case there is a problem of method. The appropriate device, in order to safeguard immunity from the power to tax, which is the power to destroy, is an elective right to the institution to come in under the old-age and survivors insurance provisions.

Protection against adverse selection of risk would be adequately assured by requiring the electing institution to cover all its employees, except clergy and members of religious orders, within a reasonable period for exercising the election.

It seems unnecessary here to recount why a free society in its own self-interest has encouraged religious, charitable, and educational institutions to develop free from the political constraints of taxation. This basic protection of other freedoms surely should not be jeopardized where, as here, the desired social objectives can be reasonably accomplished by sound alternative methods.

# APPENDIX I-F. RÉSUMÉ OF MINORITY OPINIONS ON CHANGES IN BENEFIT AND CONTRIBUTION BASE

## THE PRESENT BASE OF \$3,000 SHOULD BE RETAINED

The following statement is a résumé of the various reasons why several Council members approve of retaining unchanged the present tax and benefit base of \$3,000. Some members lay more stress on one or more of the reasons stated than on others.

The proposed change from \$3,000 to \$4,200 in the present tax base and in the wages credited for benefits should be judged by the concrete results which the change would produce and not by theoretical considerations related to the fact that \$3,000 was chosen as the base when prices were lower. These results, boiled down, mean that the well-to-do, all those with average wages of \$4,200 a year *and over*, would receive larger increases in benefits both by amounts and by percentages than would those with average wages below \$3,000, with whom social security should primarily be concerned.<sup>1</sup> Moreover, these extra benefits to the well-to-do would be granted for many years without being covered by the additional taxes which they pay.

If the new benefit formula were applied to the present base of \$3,000 these errors would be avoided. This is illustrated in the following table which gives the monthly primary benefits for persons becoming entitled to benefits (1) in 1949 after continuous coverage since January 1, 1937, and (2) after 40 years of coverage. The figures above the horizontal line are those that would follow a retention of the \$3,000 base. Those below the line show the changes that would result from raising the \$3,000 to \$4,200. In considering the amounts of the benefits it should be borne in mind that if the retired worker has a wife aged 60 or over, 50 percent must be added in each case.

Average wage	Entitlement in 1949 after 12 years of coverage				Entitlement after 40 years of coverage			
	Present formula	AC formula	Amount of increase	Percent increase	Present formula	AC formula	Amount of increase	Percent increase
\$100.....	\$28. 00	\$41. 25	\$13. 25	47	\$35. 00	\$41. 25	\$6. 25	18
\$200.....	39. 20	56. 25	17. 05	43	49. 00	56. 25	7. 25	15
\$250.....	44. 80	63. 75	18. 95	42	56. 00	63. 75	7. 75	14
\$300.....	44. 80	63. 75	18. 95	42	56. 00	63. 75	7. 75	14
\$350 and over.....	44. 80	63. 75	18. 95	42	56. 00	63. 75	7. 75	14
\$300.....	44. 80	71. 25	26. 45	59	56. 00	71. 25	15. 25	27
\$350 and over.....	44. 80	78. 75	33. 95	76	56. 00	78. 75	22. 75	41

Looking at the left-hand half of the table, one may well ask why should those at the \$4,200 and other levels receive a 76-percent increase in benefits as compared with 42 percent for those at the \$3,000 level?

<sup>1</sup> It should also be stated that those with average wage between \$3,000 and \$4,200 also receive extra benefits that favor them as compared with those earning \$3,000, but not to the same extent as at the \$4,200 level and above.

Looking at the right-hand half, one may well ask why should the well-to-do receive a 41-percent increase in benefits and those at the \$3,000 level only 14 percent? The figures above the line represent reasonable changes. Those below depart from sound social-security principles by unduly favoring the high-income groups.

If the \$3,000 base were retained, the primary benefit for persons with average wages of \$3,000 and over would, as indicated, be \$63.75 a month or \$95.62 for a man with a wife over age 60. Such monthly payments should be sufficient to provide the basic measure of protection which is the stated objective of old-age and survivors insurance.

It is important to realize that for many years the extra benefits to the well-to-do which would result from shifting the base from \$3,000 to \$4,200. would not be covered by the extra taxes which they pay as a result of the change. The extra taxes would be brought about by the fact that all earning \$4,200 and over would pay taxes on an additional \$1,200 of earnings. If the combined employers and employees tax rates were 3 percent ( $1\frac{1}{2}$  plus  $1\frac{1}{2}$ ), the trust fund would receive extra taxes of \$36 a year. If the combined rates were 4 percent (2 plus 2), the extra taxes would be \$48 a year.

Now consider the values of the extra benefits resulting from the change in the base. One way of showing what these would amount to is to compute the single premium values of the extra benefits as of the time they become payable. For example, the single premium value to a man aged 65 with a wife of the same age, of the extra benefits (\$15 a month to him, \$7.50 a month to her) is \$3,057. To meet this amount, the Government will have collected extra taxes of \$36 or \$48 a year. To get an idea of the values of the extra benefits for other conditions, the following table has been prepared.

Age	Single premium values of extra benefits		
	Single man	Married man with wife aged—	
		Same as himself	5 years younger
65.....	\$1,852	\$3,057	\$3,346
70.....	1,485	2,456	2,738

It is obvious from these figures that the extra taxes will not cover the extra benefits for those with average wages of \$4,200 or over who are *now middle-aged or older*. In essence we say to them that in addition to the very substantial subsidies required to provide the benefits they will receive on the \$3,000 base, they are to be still further subsidized for extra benefits of \$15 or \$22.50 a month. Why is it not reasonable to expect persons in such circumstances to make independent provision for these extra benefits without Government subsidy?

Another valid reason for retaining the \$3,000 base is the extensive changes that would have to be made in many of the more than 6,800 private pension plans which are now integrated into the present base.



Furthermore, unemployment insurance and old-age and survivors insurance now have the same tax base. The benefits under unemployment insurance have been raised substantially without a change in the base, and the same can be done in old-age and survivors insurance, as indicated above. Different tax bases in the two systems would complicate record keeping and tax reporting for all employers, resulting in much additional clerical work.

The time, of course, may come when the distortions that would be caused by much higher price levels than at present would justify a change both in the type of formula and in the tax base. When that time arrives, however, there should be no such special favoring of the well-to-do as would follow the adoption of the proposed change. Under present conditions, adherence to the \$3,000 base is the proper course.

THE PRESENT BASE OF \$3,000 SHOULD BE RAISED TO \$4,800

The following statement is a résumé of the various reasons why several Council members favor increasing the present tax and benefit base to \$4,800. Some members lay more stress on one or more of the reasons stated than do others.

The increase in the tax base from \$3,000 to \$4,200 and the corresponding change in the top limit of wages credited for benefits is not sufficient. The increase should be to \$4,800. Since the original base was set, the consumers' price index has risen by more than 60 percent, so that an income of \$4,800 today has less purchasing power than an income of \$3,000 had in 1939. Hence, raising the tax base and wages credited for benefits to \$4,800 would not be a real increase—it would, in fact, fall short of maintaining the 1939 relationship between the wage base and prices.

The rise in prices during the last 9 years has cut by over 38 percent the purchasing power of the savings which millions of people had accumulated against their old age. Increasing the tax base to \$4,800 and permitting wages up to this amount to be credited for benefits would help to correct some of the injustices which the rise in prices has inflicted.

The members of the Council who dissent from the proposal to increase the base seem to have based their dissent in part on the assumption that a large number of those who would receive larger benefits as a result of the increase can be classed as well-to-do. The great majority of such persons are not well-to-do by current standards. Only about 3 percent of all workers have wages in excess of \$4,800. A survey of the Department of Labor has indicated that 4 months ago a budget for an urban worker, his wife and two children ranges from \$3,121 in the lowest-cost city to \$3,565 in the highest-cost city surveyed. *This budget does not include any amount for cash savings.* It is not a luxury budget.

It is, of course, true that raising the wages credited for benefits from \$3,000 to \$4,200 or to \$4,800 would give a larger percentage increase in benefits to persons earning above \$3,000 than to persons receiving less than \$3,000. The reason for this is the obvious one that under the present formula no wages above \$3,000 affect the size of the benefits.

It has been argued that the increased benefits which would result from raising the wage base above \$3,000 will not be covered by the additional taxes paid. In the short run no one at any wage level pays the costs of even the present benefits. Even in the short run, however, the high-income person pays more of the costs of his own benefits than does one with low income. The higher the wage base, the greater percentage of the cost of their benefits do those in the top brackets pay.

On the basis of the majority recommendation for raising the limit to \$4,200, for example, the \$350 per month man would—

Pay in contributions—	But receive in benefits—
250 percent-----	90.9 percent_ More than the \$100 per month man.
75 percent-----	40 percent_ _ More than the \$200 per month man.
40 percent-----	23.5 percent_ More than the \$250 per month man.
16.7 percent-----	10.5 percent_ More than the \$300 per month man.

Taken as a whole and over the entire existence of the system, there is a net gain to the system by raising the wage base above \$3,000. Taken over the short run as well, the additional tax receipts on wages between \$3,000 and \$4,800 would more than offset the additional benefits based on these wages.

If one were to accept the argument that the wages credited for benefits should not be increased above \$3,000 a year because doing so would increase the benefits of persons receiving above \$3,000 a year by a larger percentage than those of persons receiving below \$3,000, one would be committed to permanent retention of the \$3,000 limit no matter how high prices and wages might go. That would be an untenable position. The tax base and the wages credited for benefits should be adjusted from time to time as the price level changes and also as the wage level changes. There are likely to be few periods in the country's history in which the price level rises by 60 percent in a 9-year period. Hence, there are likely to be few times when an adjustment of the tax base and the wages credited for benefits are more needed than today. The adjustment should be by approximately the amount of the increase in the consumer price index since 1939, that is, to \$4,800.

#### APPENDIX I-G. STAFF FOR OLD-AGE AND SURVIVORS INSURANCE

Robert M. Ball, staff director.

Leona V. MacKinnon, executive assistant.

Fedele F. Fauri, professional assistant.

Irving Ladimer, professional assistant.

Milton M. Mayer, professional assistant.

Helen Livingston, research assistant.

Robert J. Myers, actuarial consultant of the Social Security Administration, prepared the cost estimates, which were reviewed by George W. K. Grange, a member of the staff of the Metropolitan Life Insurance Co.

## Part II

# PERMANENT AND TOTAL DISABILITY INSURANCE

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### INTRODUCTION AND SUMMARY

Income loss from permanent and total disability is a major economic hazard to which, like old age and death, all gainful workers are exposed. The Advisory Council believes that the time has come to extend the Nation's social-insurance system to afford protection against this loss.

There can be no question concerning the need for such protection. On an average day the number of persons kept from gainful work by disabilities which have continued for more than 6 months is about 2,000,000. The economic hardship resulting from permanent and total disability is frequently even greater than that created by old age or death. The family must not only face the loss of the breadwinner's earnings but must meet the costs of medical care. As a rule, savings and other personal resources are soon exhausted. The problem of the disabled younger worker is particularly difficult since he is likely to have young children and not to have had an opportunity to acquire any significant savings.

Present methods of protection against income loss from permanent and total disability are not adequate. More than 60 life-insurance companies offer such protection, but few individuals purchase it. The cost is high, the terms on which it is sold are restrictive, and most life-insurance companies no longer follow aggressive sales policies with respect to permanent and total disability insurance. Workmen's compensation affords protection against work-connected disabilities, but less than 5 percent of all permanent and total disability cases are of work-connected origin. Special programs provide disability payments for limited groups such as veterans, railroad employees, and some Federal, State, and local employees. In a high percentage of the total cases, however, the disabled worker exhausts his own resources and becomes dependent upon public assistance. Few persons, even those receiving moderately high salaries, can accumulate enough to support their families during prolonged periods of income loss. Social insurance seems the only practical and adequate method of preventing dependency from income loss resulting from permanent and total disability.

The Council recognizes the difficulties in extending social insurance to cover permanent and total disability. Unless adequate safeguards are established, the possibility of receiving monthly disability benefits over extended periods may lead to some unjustified claims and induce some beneficiaries to resist efforts to restore their capacity to



work. In certain types of cases, disability may not be easily and reliably determined. The Council also appreciates that the number and duration of disabilities reflect somewhat the state of the labor market and may increase as unemployment rises. We are aware that in the past many life-insurance companies have had unfavorable experience with disability insurance. In our opinion, that experience is important but not conclusive.

The Council is also aware that the low levels of disability benefits paid by some foreign countries affect the usefulness of their experience as a precedent for the American program. Other countries, however, have successfully administered systems paying benefits at least as high in relation to average wages as those proposed by the Council. The experience of some 40 foreign countries with programs of permanent and total disability insurance offers much that is valuable for America. Nevertheless, the United States must of necessity pioneer in the kind of disability program adapted to its needs just as it has had to pioneer in other areas of social insurance in designing programs to meet special American conditions. Experience which will be valuable in the development of the American program is provided by workmen's compensation, commercial insurance, and the several special programs for veterans, railroad workers, and public employees, as well as by the foreign social-insurance systems.

The Council is strongly impressed with the seriousness of the problems created by permanent and total disability and with the social disadvantages of compelling the victims of this misfortune to depend upon public assistance. We believe that there is enough administrative ability in our Government organization to provide effective machinery for meeting this pressing social need. In view of the admitted administrative difficulties in undertaking the payment of such benefits, however, the Council recommends a highly circumscribed program. More progress will be made in the long run if the persons responsible for operating the program have an opportunity to develop experience under relatively favorable conditions.

We believe further that it would be desirable to establish a public advisory board to counsel with the Federal administration particularly during the early years of the operation of this new program. Such an advisory group could assure that a variety of viewpoints are considered in the formulation of policy. The advisory group might appropriately later review and make recommendations on the conduct of operations and the extent to which the program achieves its purpose. The estimated level-premium cost<sup>1</sup> of the program recommended by the Council would be only about one-tenth to one-fourth of 1 percent of pay roll and in the early years would be considerably less. Furthermore, these costs would not constitute a wholly new expense since the cost of providing for the permanently and totally disabled is now met to a considerable extent by public and private assistance and institutional care. For instance, in January 1948 about 80,000 persons were receiving aid to the blind, and payment for aid to dependent children went to the families of about 100,000 disabled men. A substantial percentage of the approximately 375,000 family heads and single individuals receiving general assistance are disabled.

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<sup>1</sup> The level-premium contribution rate is the rate which would support the system in perpetuity if collected from the first year.

### ***Summary of Major Recommendations***

*Eligibility requirements.*—To qualify for benefits, a disabled person would have to be incapable of self-support for an indefinite period—permanently and totally disabled. He would have to be unable, by reason of a disability medically demonstrable by objective tests, to perform any substantially gainful activity. This requirement would eliminate the problems involved in the adjudication of claims based solely on subjective symptoms.

We recommend that a waiting period of 6 months be required and that benefits be payable only in those cases in which, at the end of the waiting period, the disability appears likely to be of long-continued and indefinite duration. This requirement is much more exacting than the disability provisions of commercial insurance policies now being issued, which specify that a total disability that has persisted for 6 months will be presumed to be permanent. The definition as a whole constitutes a strict test of permanent and total disability, which would operate as a safeguard against unjustified claims.

To assure that disability benefits will be available only to workers who have suffered income loss by reason of disability we recommend that strict eligibility requirements be adopted to test both the recency and long duration of an individual's attachment to the labor market. To be eligible, a worker would need a minimum of 40 quarters of coverage, would have to have one quarter of coverage for every 2 in his working lifetime after 1948 in covered employment, and would have to show employment during at least one-half the time within the period immediately preceding the onset of his disability.

*Amount of benefits.*—The same benefit formula recommended for old-age and survivors insurance is proposed for the disability insurance program. The Council does not recommend, however, that benefits be provided for dependents of the disabled worker. If these were provided, there is the possibility that disability benefits in some cases might prove attractive enough to discourage return to gainful work after recovery or rehabilitation. Thus the benefits under the disability program when the worker has dependents would be substantially less than those we propose for old-age and survivors benefits. They would be as much as one-half the average monthly wage only in the case of workers who averaged \$75 a month or less, while the average benefit for all workers would be only about 30 percent of the average wage. (See table at the end of recommendation 3, p. 75.)

*Provisions for rehabilitation of disabled workers.*—The Council recommends that contributions be made from the Federal old-age and survivors insurance trust fund toward the expense of rehabilitating beneficiaries on the disability rolls. A substantial number of beneficiaries can be rehabilitated and become self-supporting. The national economy will benefit from the restoration of their earning capacity, and the cost of the insurance system will be reduced because the disability benefits of persons who have been rehabilitated will be terminated.

*Termination or suspension of benefits.*—Benefits should be denied when the beneficiary refuses to undergo a medical examination or reexamination and should be suspended when he refuses to cooperate in his rehabilitation. Payments should also be suspended for any period for which workmen's compensation is payable under a State or Federal program.

*Integration with old-age and survivors insurance.*—Permanent and total disability insurance and old-age and survivors insurance should be administered as a single system. Aside from the similarity of risks, considerations of administrative efficiency and economy make the integration logical. Integration would also facilitate the maintenance of the benefit rights of disabled workers for purposes of future old-age and survivors insurance payments.

If the administration of the two programs is integrated, the facilities already established under old-age and survivors insurance for maintaining individual wage records, the network of old-age and survivors insurance field offices, and the administrative machinery for awarding benefits and certifying claims could be adapted to the requirements of the disability program with relatively minor adjustments.

### ***The Method of Social Insurance***

The Council is strongly of the belief that the foundation of the social-security system should be the method of contributory social insurance with benefits related to prior earnings and awarded without a needs test. As stated in our report on old-age and survivors insurance, p. 1:

Differential benefits based on a work record are a reward for productive effort and are consistent with general economic incentives, while the knowledge that benefits will be paid—irrespective of whether the individual is in need—supports and stimulates his drive to add his personal savings to the basic security he has acquired through the insurance system. Under such a social insurance system, the individual earns a right to a benefit that is related to his contribution to production. This earned right is his best guaranty that he will receive the benefits promised and that they will not be conditioned on his accepting either scrutiny of his personal affairs or restrictions from which others are free.

Public assistance payments from general tax funds to persons who are found to be in need have serious limitations as a way of maintaining family income. Our goal is, so far as possible, to prevent dependency through social insurance and thus greatly reduce the need for assistance.

The Council believes that the permanently and totally disabled worker—as well as the aged worker or the dependent survivors of a deceased worker—should not be required to reduce himself to virtual destitution before he can become eligible for benefits. Certainly there is as great a need to protect the resources, the self-reliance, dignity, and self-respect of disabled workers as of any other group. The protection of the material and spiritual resources of the disabled worker is an important part of preserving his will to work and plays a positive role in his rehabilitation.

## **RECOMMENDATIONS**

### **1. Eligibility Requirements**

*To be eligible for permanent and total disability benefits, an otherwise qualified individual should be required to meet strict tests of recent and substantial attachment to the labor market. He should be required to have (a) a minimum of 40 quarters of coverage, (b) 1 quarter of coverage for every 2 calendar quarters elapsing after 1948 (or after attainment of age 21 if that was later) and prior to the first quarter of total disability, (c) 6 quarters of coverage within the 12 quarters preceding his disability, and (d) 2 quarters of coverage within the 4 quarters preceding his disability*

Permanent and total disability benefits should be paid only to those who have suffered a loss of earnings by reason of total disability. To



determine whether such a loss has occurred, both the recency and substantiality of the individual's attachment to the labor market should be tested. In keeping with the objective of establishing a carefully circumscribed and restricted program, the proposed test is an exacting one.

The requirement of 6 quarters out of the last 12 (comparable to currently insured status under old-age and survivors insurance) plus 2 quarters of coverage out of the last 4 is designed to exclude persons, such as housewives, who have retired from the labor market before the onset of disability and consequently have not incurred any loss of earnings because of their incapacity. Under this requirement, it is true, some persons who did suffer genuine losses because of disability might be prevented from qualifying if their total disability had been relatively slow in developing and they had been unemployed for more than 2 quarters because of partial disability. In view of the large number of withdrawals from the labor market each year, however, and the difficulty of determining in many cases whether or not the worker has withdrawn or is only unemployed, a requirement of very recent earnings is needed.

A strict test of long-term attachment to the labor force is proposed as evidence that the disabled worker has contributed substantially to his own support over a long period of time. A worker should be required to have a minimum of 40 quarters of coverage and 1 quarter of coverage for every 2 elapsed calendar quarters in his working lifetime (after 1948) up to the first quarter of total disability. This requirement would prevent individuals with congenital disabilities and those who have not regularly been gainful workers from qualifying. For all persons who qualify, there would be convincing proof both of the will to work and of the ability to earn income over a substantial period of time.

In some cases of total disability it will not be clear immediately whether the disability will be of long duration. It would be both unfair to the claimant and administratively wasteful to require that a person forfeit the opportunity of having insured status calculated as of the time of onset of disability because he had not filed application and undergone official examination at that time. Determinations of the existence of a total disability retroactive for strictly limited periods would be feasible and should be allowed. On the other hand, provisions requiring medical determination retroactive over long periods of time would involve serious administrative problems and uncertainties, increasing as the time of alleged onset of disability becomes more remote from the date of medical examination. The Council believes that a reasonable limitation on retroactive determinations would be 6 months before the date of application. Inevitably, under such a limitation, workers who unduly postpone filing their claims will lose insured status. This requirement seems necessary, however, to avoid the complications and difficulties involved in determining retroactively over a long period the date of the beginning of permanent and total disability.



## 2. Definition of Permanent and Total Disability

*Benefits should be paid to an insured individual who is permanently and totally disabled. A "permanent and total disability" for the purpose of this program should mean any disability which is medically demonstrable by objective tests, which prevents the worker from performing any substantially gainful activity, and which is likely to be of long-continued and indefinite duration*

*Qualified individuals should be eligible for permanent and total disability benefits after a waiting period of 6 months. The first benefit should be paid for the seventh month of disability*

The definition of "disability" used in a disability program will in large part determine the feasibility of administration and the costs of the program. The proposed definition is designed to establish a test of disability which will operate as a safeguard against unjustified claims. It is an administratively practicable test and it will facilitate the evaluation of permanent and total disabilities.

The Council recommends that compensable disabilities be restricted to those which can be objectively determined by medical examination or tests. In this way, the problems involved in the adjudication of claims based on purely subjective symptoms can be avoided. Unless demonstrable by objective tests, such ailments as lumbago, rheumatism, and various nervous disorders would not be compensable. The danger of malingering which might be involved in connection with such claims would thereby be avoided.

Total disability lasting more than six consecutive calendar months should be considered permanent if the disability is diagnosed as likely to be of long-continued and indefinite duration. Periodic medical reexaminations, as well as other checks and safeguards which will exist in the system, may be relied upon to discover cases in which a beneficiary has recovered. The period of 6 months is recommended because it is sufficiently long to permit most essentially temporary conditions to clear up or show definite signs of probable recovery. The claims payable after the 6-month waiting period has expired would be only those involving long-term or chronic conditions.

The great majority of persons applying for permanent and total disability benefits will have had no income during the waiting period. Only two States now provide temporary disability benefits and no benefits are payable to persons who are incapacitated for work at the time they file claims for unemployment insurance benefits.<sup>2</sup> Only a limited number of workers have short-term disability protection in some other form, such as commercial insurance policies. Consequently, the waiting period—constituting as it does in most cases a 6-month period without income—would make it very unprofitable for would-be malingerers to give up work and attempt to qualify for benefits.

The concept of permanent disability which the Council envisages should be defined in legislation only in broad terms and should be worked out in detail through regulations. We do not believe that mere duration of a total disability for 6 months should give rise to an automatic presumption of permanency, as is generally the case with commercial insurance policies offering permanent and total disability

<sup>2</sup> See appendix IV-D for provisions under these and a third State law under which temporary disability benefits are payable in 1949.

protection. On the other hand, we would not limit benefits to the cases in which it is certain that the disability is, in the strictest sense of the word, permanent. In some cases which are to all intents and purposes "permanent," physicians are nevertheless reluctant to designate the condition as incurable, both because of the psychological effect on the patient and because recovery is theoretically possible. Most systems using a concept of permanency have found it necessary to presume permanency in cases of long and uncertain duration and to subject claimants to periodic reexamination to determine whether they have recovered. Such an approach prevents the extreme hardships which would result from the denial of benefits in many cases of total disability which continue indefinitely, perhaps for years, but which cannot with certainty be adjudged "permanent."

Since the objective of disability insurance is to compensate for loss of earning capacity, payments should not be made for the mere physical impairment, loss of strength, disfigurement, or diseased condition which results from illness or accident. Payments should be made only if the individual is unable to perform any substantially gainful activity.

Some disability insurance plans are based on the concept of compensating an individual for incapacity to work within the area covered under a particular insurance or retirement scheme or within an area of customary employment. With this criterion, an individual who with reasonable effort could obtain employment in a different area, or perform another type of work, may nevertheless be considered disabled. While this "occupational" concept may be justified in systems designed primarily to provide for the retirement of employees when they are no longer able to perform their jobs efficiently, it would not be appropriate for a general social-insurance system. Such a system, financed by employers and employees in wide and diverse areas of employment, should not permit workers to withdraw from the labor market and receive benefits if they have not suffered a loss of general earning capacity. In the best interests of the individual and of the national economy, and in view of the limitation on total national resources available for social-insurance purposes, it is important to utilize any substantial earning capacity that handicapped persons may retain.

The exact limits of what constitutes "substantially gainful activity" should, in the early years of the program, at least, be defined by regulations. After the program has been in operation, administrative experience will doubtless indicate ways in which the definition can be improved. Leaving the definition to regulations will make it possible to take prompt advantage of that experience. The Council believes, however, that the regulations governing this definition should be strict.

### 3. Amount of Benefits

*Primary disability benefits should be based on the same formula recommended for old-age and survivors insurance. No benefits should be provided for dependents of the disabled wage earner*

In general, the needs of a permanently and totally disabled worker are at least as great as those of a retired worker. In many respects the burden of disability is even greater than the burdens created by old age or death. These facts speak strongly for providing disability benefits similar in types and amounts to payments provided for retirement and

death cases. Payments should not be high enough, however, to encourage persons on the borderline of total disablement to seek benefits or to malingering when total disability has ceased to exist. The incentive for beneficiaries to return to work when possible is a very significant factor influencing the costs of a disability program. This incentive might not exist if the worker on the disability rolls could receive, in the form of benefits payable on his wage account, too high a replacement of his earnings loss. In keeping with the Council's view that stringent provisions should be established, it would seem desirable to restrict disability payments to the primary insurance benefit payable to the worker himself. No dependents' benefits, such as those under old-age and survivors insurance, should be payable to the wife or minor children of the disabled worker. The proposed restriction on the types of disability benefits payable would mean that benefits would amount on the average to about 30 percent of the worker's average monthly wage and would in no case exceed one-half of the average monthly wage. As shown in the following table, it would be as much as one-half only in the case of workers with average monthly wages of \$75 or less.

TABLE 1.—*Disability insurance benefit and its ratio (percent) to specified average monthly wages under the Advisory Council's proposals*

Average monthly wage	Disability insurance benefit	Percent of average monthly wage	Average monthly wage	Disability insurance benefit	Percent of average monthly wage
\$50.....	\$25.00	50.0	\$200.....	\$56.25	28.1
\$75.....	37.50	50.0	\$250.....	63.75	25.5
\$100.....	41.25	41.2	\$300.....	71.25	23.8
\$150.....	48.75	32.5	\$350.....	78.75	22.5

#### 4. Disqualifications

*Claims should be disallowed if the claimant refuses to submit to medical examination, and benefits should be terminated if the beneficiary refuses to submit to reexamination. Provision should be made for periodic reexaminations so that benefit payments can be terminated promptly when the beneficiary is no longer disabled. Disability benefits should be withheld if a disabled person refuses without reasonable cause to accept rehabilitation services*

If an applicant for disability benefits refuses to submit to medical examination required for the purpose of determining whether a disability exists, such refusal should result in disallowance of the claim; if an individual receiving benefits refuses to submit to reexamination, his refusal should result in termination of benefit payments. Benefits should, of course, be terminated if the disability ceases. Provisions for periodic and special medical reexaminations of beneficiaries are essential to the administration of any disability program, but the frequency of reexamination should be adapted to the needs of individual cases. It would probably be desirable that cases be reexamined at least once a year, although some types of disablement may require more frequent checking.

Effective administration and conservation of funds make it desirable that benefits be suspended when refusal to accept rehabilitation is



determined to be unwarranted. Together with the proposed requirements calling for termination of benefits on recovery or successful rehabilitation, this provision would serve to prevent payments when the continuation of benefits is not justified.

### 5. Adjustment to Workmen's Compensation

*Permanent and total disability insurance benefits should be suspended for any period for which workmen's compensation cash benefits are payable under State or Federal programs*

Workmen's compensation is payable in less than 5 percent of all cases of economic loss due to permanent and total disability. Although the total area of possible duplication is small, an individual should not receive disability payments under more than one program at the same time. If combined payments become a major fraction of prior earnings, the economic incentive for beneficiaries to return to work may be insufficient.

Workmen's compensation reflects society's conviction that part of the costs of industrial accidents and diseases are a responsibility to be borne by the employer, regardless of fault, and in lieu of any common-law liability the employer may otherwise have incurred. Contributory disability-insurance benefits should not take the place of, or interfere with the continuing development of, the special programs affording protection against work-connected disabilities.

The most practical approach to the problem of duplication of benefits by State and Federal workmen's compensation systems and the social-insurance system seems to the Council to be the suspension of basic social-insurance benefits for any periods for which cash benefits are payable under workmen's compensation programs. Thus the Federal program would be precluded from making payments in cases covered by workmen's compensation, but benefits could be paid when there was no eligibility for workmen's compensation or when cash benefits under workmen's compensation were terminated. Although disability-insurance benefits would be suspended, an individual's rights to retirement and survivorship benefits would be protected in the same way as if he were receiving the disability benefit. To accomplish the objectives of the suspension provision, lump-sum and commuted benefits paid as workmen's compensation for permanent total disability should also cause suspension of the disability-insurance benefits for a period of time which would be the equivalent of the time the payments would have lasted if made on a periodic basis.

### 6. Adjustment to Other Federal Disability Programs

*A disabled worker eligible for benefits under both the disability program recommended here and another Federal disability program (other than a Federal workmen's compensation system) should receive only the larger benefit*

Protection against the risk of permanent disability is provided for railroad and Federal civilian employees and members of the armed services under their special retirement systems. Similar provision is made under laws administered by the Veterans Administration for disabled servicemen and veterans. The benefits provided under



these Federal programs are usually substantial since these systems are either staff retirement plans or, in the case of the veterans' program, are designed to compensate for losses incurred in the Nation's defense.

It is important that combined benefits to which some persons might become entitled under one of these special systems and under the social-insurance program should not be so high as to discourage beneficiaries from returning to gainful work when they are able to do so. The Council believes therefore that where there is entitlement under two systems, only the higher benefit should be payable.

At the direction of the Congress, a study should be made to develop cooperative administrative procedures, to draft a plan for equitably financing disability benefits, and to make such other recommendations as are necessary for effective coordination of disability payments under the several Federal programs. Participating in the study should be such agencies as the Federal Security Agency, the Veterans Administration, and the service departments, and the study should be tied in with those proposed in the Council's old-age and survivors insurance report with respect to the programs administered by the Railroad Retirement Board and the Civil Service Commission.

Undoubtedly, private as well as State and local retirement systems which provide disability protection would have to be modified to avoid unnecessarily high total payments when payments are also payable under the social-insurance disability program.

## 7. Integration with Old-Age and Survivors Insurance

*Permanent and total disability insurance and old-age and survivors insurance should be administered as a single system. Provisions of the two programs should be integrated so that, in computing insured status and the average monthly wage of a disabled person, periods of total disability will not be counted*

There are numerous administrative and organizational needs which are common to both an old-age and survivors insurance program and a program for permanent and total disability insurance. Most of the industrial nations of the world have recognized this fact and have established single plans covering both types of social insurance.

Under the permanent and total disability program we recommend, the same wage information will be necessary as under old-age and survivors insurance to determine insured status and the amounts of benefit payments. Administering these forms of social insurance as a single program would permit utilizing for disability insurance purposes the central accounting operations and the field and area office facilities already established under old-age and survivors insurance.

For disability cases, additional techniques and procedures would have to be developed by the old-age and survivors insurance field and adjudication staffs. On the other hand, procedures and techniques already developed under old-age and survivors insurance would apply to many essential phases of disability insurance such as the determination of insured status, the computation of benefit amounts, and the monthly certification of benefit payments. In addition, broad skills necessary for the administration of old-age and survivors insurance, such as those needed in interviewing, investigation, and

evaluating evidence, would be of value in the administration of a new disability program. There would be substantial savings in administrative costs if the programs were combined rather than separate. Of importance also would be the convenience for the public in having one organization to look to for information on both types of insurance.

Integration of the two programs would also facilitate the maintenance of the disabled worker's average monthly wage and insured status for purposes of retirement and survivor benefits. An insured person now has his average monthly wage reduced during a period of extended incapacity to work and may lose benefit rights entirely if he is not permanently insured. The disability program should contain a provision excluding periods of prior permanent and total disability from the computation of the average monthly wage whenever a subsequent claim is filed on the same wage record. Furthermore, periods of prior permanent and total disability should not be considered in determining currently insured status. This will prevent loss of rights to certain dependents' and survivors' benefits which, under the Council's recommendations for old-age and survivors insurance, would be payable only on the basis of currently insured status.<sup>3</sup> With the two programs administered as a single system, the necessary information regarding the existence and duration of a prior disability would be readily available when needed in connection with old-age and survivors insurance claims.

### 8. Effective Date

*The effective date for the payment of first benefits under the disability insurance program should be 1 year after the effective date for the extension of coverage under old-age and survivors insurance*

Assuming that the disability program may be adopted at the same time as broad coverage extension for old-age and survivors insurance, the Council recommends that permanent and total disability insurance payments first be made approximately 1 year after the date of coverage extension. The coverage of farm labor, domestics, self-employed, and others will create new problems of administration, stimulate numerous inquiries, and increase old-age and survivors insurance work loads. It would probably be undesirable for the Social Security Administration to take on both the coverage extension and disability insurance problems simultaneously.

Even if the disability insurance legislation is passed later than comprehensive old-age and survivors insurance amendments, postponement of the disability program's effective date for approximately 1 year from the date of the passage of the disability legislation would probably still be desirable. Such postponement would allow time for the preparation of regulations and procedures, for the necessary recruitment and training of staff for work in this new field, and for informing the public of its rights in connection with the new type of protection.

<sup>3</sup> Recommendation 16 of the old-age and survivors insurance report suggests benefits under certain conditions for the children, aged dependent husband and aged dependent widower of a woman worker who, among other requirements, must be currently insured. Under the proposed eligibility provisions for the disability program, there is no need for a similar "freeze" of fully insured status since the minimum requirement of 40 quarters of coverage to qualify for disability payments constitutes fully insured status.

### 9. Rehabilitation Services

*Rehabilitation services should be furnished to disability insurance beneficiaries when it appears that the services to be furnished will assist the beneficiary to return to gainful work and so will result in a saving to the trust fund. The services should be furnished through existing facilities, with contributions toward the expense of such services being made from the trust fund. Benefits should be terminated if rehabilitation of the beneficiary has been successful*

It would be economically and socially sound to provide rehabilitation services for those disability insurance beneficiaries who could be expected to profit by them. While the possibilities of rehabilitation are limited for many permanently and totally disabled persons, the provision of such services would reduce the ultimate cost of the disability insurance benefits by enabling some beneficiaries to again become self-supporting. It would also benefit the national economy by restoring to it the services of otherwise idle individuals. Physical restoration services, as well as vocational retraining, should be provided; vocational training is of limited value unless it can be supplemented by necessary medical and surgical rehabilitation.

State programs of rehabilitation are already in operation and are coordinated and aided by the Federal Government under the authority of the Federal Rehabilitation Act of 1920, as amended. The existing facilities could be immediately utilized in furnishing services to disability insurance beneficiaries since the currently operated Federal-State programs afford the necessary organization, staffed, trained, and equipped to furnish rehabilitation services on a Nation-wide basis.

Close and complementary relationships should be established between the two programs. State agencies as well as the Federal old-age and survivors insurance trust fund would benefit from such cooperation. The State agencies carrying out rehabilitation would have cases referred to them on the basis of the medical diagnosis and vocational case history developed by the insurance program. The problem of maintenance of the client during rehabilitation, at present a troublesome one in many cases, would be at least partially solved by the disability benefits which would continue to be paid during rehabilitation. Finally, the problem of locating cases for rehabilitation at early stages of disability, also frequently troublesome, would be nearer solution because of early referrals by the Social Security Administration.

Contributions toward the expense of rehabilitating insurance beneficiaries should be made from the trust fund only where it is probable that a saving to the fund will result from the rehabilitation. The contributions would, of course, be in the form of payments for services furnished beneficiaries through existing facilities. No services would be provided directly by the Social Security Administration.

Since rehabilitation services are now furnished at the expense of the present Federal-State program, it may be questioned why the trust fund should bear the cost of services now financed from other sources. Several factors make this recommendation appropriate. First, under the present rehabilitation program, before certain services can be furnished, the disabled individual must meet a "needs test," and this requirement might preclude some insurance beneficiaries from qualifying. (The individual must meet a needs test to receive medical and



surgical treatment, prosthetic appliances, tools and books, and maintenance.) Second, in many States the funds available for rehabilitation programs are inadequate; contributions from the trust fund would enable them to afford better services to the beneficiaries. Finally, early attention and treatment are of the utmost importance for successful rehabilitation; if trust-fund contributions were made, it would undoubtedly be possible for the rehabilitation of insurance beneficiaries to be instituted more promptly than otherwise, thereby reducing the costs of the disability program.

It would seem essential to provide for the suspension of benefits if the beneficiary refuses rehabilitation without reasonable cause. There is considerable precedent for such a provision in foreign disability systems and State workmen's compensation programs. The provision would make for effective administration and conservation of the funds of the insurance system. A beneficiary who has been rehabilitated should have his benefits terminated if the rehabilitation has been successful.

### ADMINISTRATION OF PERMANENT AND TOTAL DISABILITY INSURANCE

This section presents a picture of the operation of a disability insurance program as visualized by the Council in arriving at its recommendations. This description is illustrative only and is not intended to prejudge alternative methods of organization and other administrative problems.

Development and adjudication of claims for old-age and survivors insurance have been decentralized to field offices throughout the Nation; supervision of the field offices has been delegated to regional staffs; and broad authority for the activities incident to the payment of claims is carried by area offices in various parts of the country. This pattern of operations, which can be further localized at any time the volume of claims activity warrants, has brought old-age and survivors insurance into intimate contact with claimants in their own towns and with employers and the general public as well. The central administration of the system is limited to activities essential to supervising the establishment and reasonably uniform application of Nation-wide policy. The Council believes that a similar degree of decentralization could be achieved in the administration of permanent and total disability insurance.

Every claimant for permanent and total disability benefits will have to undergo a medical examination as a first step in the determination of the existence of disability. In many cases it would be unnecessary or impractical to conduct these medical examinations in Federal facilities, although where such facilities exist (for example, those of the U. S. Public Health Service and of the Veterans Administration), they could be used to the extent available. Contract arrangements could be made with private physicians, clinics, and State and local hospital facilities in all parts of the country to perform such examinations for the social-insurance program. General practitioners as well as specialists would no doubt furnish their services on a fee basis for this purpose, much as they now perform examinations for other Federal agencies as, for example, the Bureau of Employees' Compensation, the



Civil Service Commission, and the Veterans Administration. Consistent with the decentralized pattern of old-age and survivors insurance operations, relationships with the local medical profession would be carried out through regional or area medical representatives. These representatives would be concerned with liaison and instructional work with examining physicians, consultation with the field offices on special problems in claims development, and, in unusual cases, decisions on whether a claimant should undergo additional examinations by specialists or observation and tests in a hospital.

After medical examination has established the nature and extent of the claimant's disability, his condition would be evaluated in terms of its effect on his capacity for substantially gainful activity, and all the evidence in the claim would be subject to determination. This process would probably be carried on in the various area offices after an initial period of centralized determinations. If it is determined that the claimant is permanently and totally disabled, a decision would be made concerning the frequency of reexaminations. Periodic medical examinations, confirmed by results of special field investigations in any doubtful cases, would provide the basis for reviewing a case whenever it appeared that a change in conditions might call for termination of the benefit.

When a disability claim is filed, or in any event at the time of medical examination or claims adjudication, any disabled person for whom rehabilitation appears possible would be referred to the appropriate State rehabilitation agency. Each State now has a rehabilitation program operated with Federal aid and administered by the Office of Vocational Rehabilitation. The State agency, as a rule, could observe the beneficiary's progress for the social insurance system, and benefits would be stopped when rehabilitation was completed. If a claimant was reluctant to undergo rehabilitation, he would know that provisions of the Federal program would require a suspension of his disability benefits for refusal to accept rehabilitation.

Under the method of Federal operations described, various relationships with State and local interests would bring local viewpoints to bear on the program. The Council believes that this can be a very important factor in preventing abuses of the system. It is highly desirable that the administration of the program be responsive to local and regional viewpoints. On the other hand, there are distinct advantages in the fact that the permanent and total disability insurance program would be far enough removed from local influence to be free of the pressures which might result in widely divergent local standards and concepts. The Council believes the recommended program can be administered to achieve a desirable balance of interests and influences;

## APPENDIXES—PERMANENT AND TOTAL DISABILITY INSURANCE

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### APPENDIX II-A. ACTUARIAL COST ESTIMATES FOR PERMANENT AND TOTAL DISABILITY BENEFITS

Estimates of future costs of permanent and total disability benefits to be added to the old-age and survivors insurance system are affected by the same factors arising in connection with the estimates for old-age and survivors insurance as outlined in the preceding report on that subject.<sup>1</sup> In addition there are certain other factors which enter in, principally, (1) the probability of a person's becoming disabled and eligible for benefits—a factor that varies by age and sex; and (2) the probability of such a disabled person's continuing to receive benefits, with termination depending on the events of death, recovery, or attainment of age 65 (and hence eligibility for old-age retirement benefits)—a factor that varies by sex, age at disability, and duration of disability.

A relatively wide range in disability cost estimates is necessary because there are no available experience data on a social insurance system that pays disability benefits of the type under consideration and at the level presumed. Moreover, it is difficult to estimate the effect of the four types of insured status requirements on the number of persons who will be eligible at various periods in the future.

It is estimated that the level premium cost<sup>2</sup> of the disability benefits proposed will be about one-tenth to one-fourth percent of pay roll. These figures include not only the actual cost of disability benefits to disabled individuals under age 65 but also the additional cost for old-age and survivor benefits resulting from "freezing" the disabled individual's insured status and average wage.

Considering the disability benefit costs of various future years as related to pay roll, it is anticipated that the trend will level off after a relatively short time—perhaps in 20 or 25 years. In the early years of operation the benefit outgo will be very small because of (1) the natural slow growth in building up a benefit roll; (2) the stringent qualifying requirements which for a number of years will exclude most of those who in the past had been primarily engaged in employment newly covered under the system; and (3) the delay in filing, as well as the nonfiling, of claims by persons who are not familiar with the program.

After the program has been in operation for a few years, the number of new disability claims arising annually will range from 20,000 to 50,000, although after perhaps a decade or so, when the full effect of the extension of coverage has made itself felt, this number will rise to perhaps 40,000 to 100,000. Eventually the total number of dis-

<sup>1</sup> See pp. 50-60.

<sup>2</sup> The level premium contribution rate is the rate which would support the system in perpetuity if collected from the first year.

abled persons who are on the benefit roll and who are under age 65 will number roughly 300,000 to 800,000. The eventual annual cost of the proposed permanent and total disability benefits as a percentage of pay roll will probably range from somewhat more than 0.1 to possibly as much as 0.3 percent of pay roll; in terms of dollars this corresponds to about 200 to 500 million dollars a year.

When the relatively small cost for disability benefits as set forth above is added to the estimated cost for the expanded old-age and survivors insurance program recommended, the over-all cost is increased only slightly. Thus, including disability benefits as proposed in this report the level premium cost of the entire expanded program would range from 5 to 7½ percent of pay roll, while the ultimate annual cost after the old-age, survivors, and disability insurance system had been in operation for some 50 years or more would be about 6 to 10 percent of pay roll. In view of the small increase in costs resulting from these disability recommendations, there would seem to be no need to consider a special increase in contributions to finance the disability benefits.

TABLE 2.—*Estimated permanent and total disability beneficiaries and benefit disbursements under Advisory Council proposal*

[In thousands of persons and millions of dollars]

Calendar year	Number of beneficiaries	Benefit disbursements	Benefits as percent of pay roll
Low cost estimate			
1960.....	157	\$97	.07
1970.....	221	135	.09
1980.....	252	153	.10
1990.....	267	163	.10
2000.....	300	182	.10
High cost estimate			
1960.....	454	\$264	.19
1970.....	629	362	.24
1980.....	711	409	.26
1990.....	739	425	.27
2000.....	800	458	.29

## APPENDIX II-B. MEMORANDUM OF DISSENT BY TWO MEMBERS

Total disability should be covered by State assistance programs aided by Federal grants and should not be included in a Federal contributory social-security program.

### *Lessons from life insurance experience*

A persuasive theoretical case can be made for including total disability benefits in the Federal old-age and survivors insurance system. Total disability is a distressing catastrophe involving serious consequences for those whom it overtakes and for their dependents. However, the way to meet the situation and at the same time avoid many of the pitfalls indicated by life insurance and other experience is on an assistance basis.

In the 1920's a persuasive case was developed for the inclusion of total and permanent disability income provisions in life-insurance policies. There was no doubt that this type of insurance was popular and met a real need. Accordingly the life-insurance companies issued large amounts of insurance providing the disability income benefits only to learn by hard experience during the depression of the 1930's, involving literally hundreds of millions of dollars of losses, that insurance of this type cannot be issued safely except under severe restrictions as to benefit provisions, rigid selection of risks, high premium charges, the most careful scrutiny of new claims, and an adequate follow-up of those receiving disability incomes.

It is sometimes claimed that the difficulties and losses incurred by the life-insurance companies arose from the overinsurance of well-to-do persons who built up disability insurance coverage to unsound levels. It is true that this was a source of heavy loss. However, the hazard of the disability coverage was clearly evident in group insurance where the rates of disability during the depression rose to a greater extent than did the rates under ordinary insurance. The group experience is much more significant as a criterion in considering total disability on a contributory basis in a social-security program because it related to wage earners, was issued on a wholesale basis without adverse selection by the insured, and was free from the overinsurance characteristics of business issued on an individual basis.

Some life-insurance companies today sell disability income insurance in connection with life insurance to carefully selected male applicants on a very restricted basis and at high rates of premiums. This fact provides no basis whatever for claiming that all gainfully employed persons could safely be covered for total disability in a contributory social-insurance program.

Unfortunately for reasons analogous in some ways but different in others, total disability benefits cannot be included in a Federal contributory social-insurance program with any reasonable assurance that claims can be limited to the type of disability envisaged when the program is adopted. They will get out of hand just as they did in the life insurance experience. The reasons are outlined below.



*The break-down of the system is most likely to occur in period of unemployment*

In the prosperous years of the middle 1920's, the life-insurance companies were able to administer the total disability insurance provision with relatively little trouble. Because of the problems inherent in a political system providing benefits available to practically all wage earners in all occupations, a Federal contributory total disability benefit program would probably experience more trouble than the life-insurance companies in periods of prosperity when job opportunities are plentiful. However, very serious difficulties would develop when unemployment began to assume major proportions. Under such conditions, there would be tremendous pressure to attempt to prove disability to the extent necessary to get on the Government benefit rolls.

Theoretically it would appear easy to prevent abuse of the system, but practically, as the life-insurance companies discovered, the problem is extremely difficult to handle. The crux of the matter lies in the fact that it is next to impossible to evaluate total disability when there is a determination to attempt to prove that one is disabled in order to obtain a potential life income from the Government. Claims exceedingly difficult to evaluate are those where it is alleged that the disability which prevents one from working is of the subjective type that is next to impossible to disprove—for example, the various manifestations of "rheumatism," feigned or imaginary angina pectoris, and nervous disorders.

Once on the benefit rolls, it would be hard in a large percentage of cases to get the worker to return to his job. An individual's net earnings as a worker after deduction of taxes, union dues, and contributions for insurance benefits, after payment of transportation and meal costs, and purchases of work clothes, would in many instances, not be sufficiently attractive to induce him to return to work as compared with the tax-free disability payments and freedom from other charges. Moreover, being on the benefit rolls would give many persons a welcome sense of security not present in regular employment, especially if they were of the marginal type in ability. Many would prefer a small income with security, to a larger income with what they would consider insecurity.

This would be true because after the period of unemployment which had caused the increase in the number of persons on the benefit rolls, there would be a substantial residue of persons with impaired earning power, whose net earnings if they returned to work, would not be enough more than their benefits, based upon prior earnings records, to make it appear worth while to go back to work. These individuals would do everything in their power to have their disability incomes continued.

Another factor in periods of unemployment that would greatly increase the problem of holding disability claims to proper limits would be the incentive employers would have to lay off inefficient workers who later would be represented as unable to work because of alleged disability. Since the laid-off workers would probably be those whose efficiency was failing, their chances of being employed again at their previous wage levels would be small. Hence their disability benefits, based upon prior wage records, might be very attractive as compared with what could be earned net upon again being employed. The in-

centive therefore to do everything possible to stay on the benefit rolls would be great indeed. With unemployment insurance as the first, and total disability as an eventual later means of support, the temptation to employers to use the system to get rid of inefficient workers could have very serious consequences.

It might be thought that workmen's compensation would provide guidance in appraising the total disability problem. Unfortunately it does not offer much help. Most workmen's compensation cases arise from accidents and are relatively easy to appraise and adjudicate. The insurance companies have had but little difficulty in issuing coverage for disability arising from accidents. It is on the health side that the problems described above are encountered.

Many people are working who the doctors will say are near the border line and should stop work. These individuals will be inclined to stop work, and a careful physician will feel obliged to give them the benefit of the doubt and say they are disabled for benefit purposes, when they are not totally disabled at all.

In the disability field the primary problem is likely to be determination of the present or potential ability to do some work, not the diagnosis of a physical condition. Many individuals with an unquestioned pathological condition are earning their support in properly chosen useful work and in so doing are benefited mentally as well as physically. Others in a similar physical condition are supported in idleness by insurance benefits, an independent income or by their families. In cases of this type, which constitute a large proportion of disabled individuals, whether one earns his living or not depends on economic incentives.

Unfortunately experience demonstrates that cash disability benefits operate as a deterrent to rehabilitation. Entirely aside from the problem of over-all cost, any benefit which diminishes the incentives toward rehabilitation and self-support is socially undesirable.

#### *Benefits as rights*

A basic difficulty to bear in mind is that in any system supported by taxes specifically levied for the purpose, workers will look upon benefits as rights to which they are equitably entitled.

This will color their fundamental attitude toward the system and intensify their demands for benefits when their disabilities do not warrant their doing so. In taking this position they will feel they are doing what they are equitably entitled to do and are doing nothing wrong. Moreover, if a person thinks someone else has received benefits when no more disabled than he, he will contend for similar treatment for himself.

Though the right to receive benefits is, of course, always limited by qualifying conditions, yet in the worker's mind it is the question of right that tends to be uppermost, while qualifying conditions are relegated to the background. The former will be stressed, and the latter soft-pedaled. When fulfillment of the conditions can be readily verified objectively, as in the case of death or retirement at a specified age, it is not so easy to lose sight of them or to deny their relevance. However, when a substantial measure of subjectivity is involved, as in many types of disability claims, it becomes simultaneously much easier for a worker to maintain, and harder for an administrator to deny, that the necessary qualifying conditions are

present—and all the more so when the administrator has no strong motive, financial or otherwise, for denying the claim.

The fact that the plan is contributory would not provide a financial incentive for sound administration since the source of the funds would be either the large old-age and survivors insurance reserve fund or general revenues, as indicated below.

*In the Federal system there would be strong pressure against, and little incentive for, sound administration of claims*

In a system where the payment of benefits depends upon discretion, there is a strong tendency to be generous in the adjudication of claims, especially when the money comes from a reserve fund in Washington amounting to billions of dollars. In the event the Federal Government should bear part of the cost from general revenues, the feeling that the funds for the payment of claims were unlimited would be intensified.

There would also be an incentive to pay border-line claims, arising from a feeling that the money available to the system was going to be used anyhow so that the beneficiaries in a particular locality might as well get their share. Administrators who did a conscientious job and attempted to hold benefits to bona fide claimants would likely be subject to local criticism because their claim rates were lower than those in other communities where lax methods prevailed.

Because the program is operated by the Government, Congressmen are sure to be appealed to for assistance to have claims approved which constituents believe are appropriate, but which in fact are far removed from the total disability classification. Appeals of this kind put conscientious Congressmen in a difficult spot. For those willing to curry favor with constituents at the expense of the reserve fund or of Federal Treasury, as the case may be, the situation offers great opportunities.

It is also clear that in a system where the payment of benefits is dependent upon broad discretionary powers to be exercised by Government employees, there would be opportunity for a national administration to use the system to influence votes. The mere expression of an attitude toward the treatment of claims would be sufficient to determine the votes throughout the whole country of large numbers of beneficiaries, actual or potential, and their families. There would also be wide open opportunity for political favoritism in handling claims which any political party in power could use with great effect if it so desired.

*A large percentage of covered workers are women (18 million, or 40 percent, in 1944)*

In 1944 over 8,000,000 women were fully insured under the old-age and survivors insurance system and more than half had worked steadily in covered employment for 8 years. Women are the most difficult group to insure against disability. Claims of disability for types of physical ailments that cannot be disproved are exceedingly common, e. g., nervous disorders, rheumatism, etc., etc. Life insurance companies found that out, and except to a negligible extent and under very restrictive conditions, women are no longer offered disability income insurance.

There is furthermore the impossibility in many instances of determining attachment to the labor market. A woman may have worked



for years and when unemployment appears, or when she merely wants to stop work and take care of her home, she can quit her job, and after 6 months claim she would like to work but cannot because of physical disability. She can claim she is able only to be around the house and do nothing more. Having paid taxes for disability benefits she will demand them. There would be opportunity for the development of a serious racket in this area; and organizations would spring up to supply individuals with information as to ways and means of making claims which would probably be approved.

All of the foregoing problems are greatly intensified if the woman is married.

#### *Costs*

No estimates of costs can forecast the probable drain on the funds resulting from the operation of the forces outlined above.

#### *Experience in other countries*

It is sometimes claimed that other countries have blazed the way for the successful inclusion of total disability in a governmental contributory social-insurance program. This type of coverage originated in central Europe. To cite Germany and Austria as examples which we should now emulate will not carry conviction in the United States.

In Great Britain the disability program has heretofore been operated by the so-called "approved societies" in which the benefit claims of workers were adjudged by their associates whose own benefit rights would be endangered by the improper approval of claims. The Socialist government changed this plan in its recent revision of the British social-insurance program, but there has been no experience to indicate that the change will be successful. Furthermore, the benefits under the program have been so low, only 10 to 15 percent of wages on the average, that the incentives to abuse were very much curtailed.

The experience of Central and South American countries cannot be cited as examples we should follow. The social-insurance programs of those countries are new and have built up no adequate experience. Many of them were set up by refugees from central Europe operating through the International Labor Office and simply duplicate the thinking of the central European social-insurance bureaus.

Therefore, there is no valid experience to guide the United States in setting up a contributory total-disability program in its social-security system. The project must be appraised by applying the best possible judgment to the particular situations existing in this country.

#### *Present proposals as an entering wedge*

It is generally advocated by those favoring the proposed plan for including disability benefits in the old-age and survivors insurance system, that the program be expanded as soon as the initial experience would appear to warrant. The proposed rules for eligibility are quite restrictive and the level of benefits relatively low as compared with old-age and survivors insurance. It has been the general experience that the smaller the benefits in relation to the individual's normal earnings, the lower the rates of becoming disabled. Therefore, given a few years of relatively high employment, the experience is likely, on the surface at least, to appear to contradict the critics and to justify liberalization of the program all along the line. Thus the stage



would be set for changes which would bring about the extremely serious consequences described above. The way to avoid them is to seek another, safer solution to the problem.

*Total disability should be provided for under State assistance programs with Federal grants-in-aid*

In view of the many pitfalls involved in Federal contributory disability insurance, the problem should be met through the development of State assistance programs providing for Federal grants-in-aid. This should be accomplished under a plan setting up a new specific category of total disability. At the same time it would be wise to provide for a much more liberal means test than is required in other types of assistance cases. Since wherever possible the emphasis should be on restoring the worker to productive activity, it would be unfortunate to have him and his family reduced to destitution in the process, thus handicapping him in his efforts to again become a useful member of society.

The States already have the vocational rehabilitation agencies that would be essential to the proper functioning of the program. One of the undesirable consequences of plans which pay cash disability benefits as a matter of right, is that they tend in so many instances to cause the individual person to resist the process of rehabilitation. When State agencies handle cases on the basis of need, they have much greater authority in insisting upon rehabilitation.

The States have agencies close to the disabled in their homes, including medical and case work facilities for treating individual cases. They can retrain and rehabilitate many disabled persons, find work for them and render such financial assistance as befits each case. Where institutional treatment is required, State and local institutions already care for many disabled, and this service would be expanded under the proposed program.

In such a State plan the prime emphasis should be on rehabilitation—medical and vocational—rather than on benefits. Rehabilitation should be undertaken wherever there is any indication that it would help the disabled person, and cash assistance should be conditioned on the need for and acceptance of rehabilitation measures. Disabled persons should be well instructed as to the superior value and importance of rehabilitation, so that they would come to realize that the best service the State could render them would be to restore their capacity for self-support, if only in part. As an incentive in this direction there should be assurance of work in a protected labor market (sheltered workshops) for those whom rehabilitation measures cannot fully reequip for a place in the open labor market, or while they are undergoing reconditioning.

A decentralized system of this kind would render unnecessary the extensive organization of Nation-wide facilities under Federal control to provide the medical, technical, and nursing staffs required to handle total disability cases. The country should stop, look, and listen before setting up a far-flung Federal bureaucracy in this area with the wide discretionary latitude in paying benefits which a Federal program would necessarily entail.

It would be much safer to have the system handled by State agencies. Since the local taxpayers' own money would be used in carrying out the program there would be an incentive to administer claims properly

which would not exist if the money came from Washington and was dispensed by Federal agents. Benefits could not be considered as rights which had been paid for. Hence doubtful or fraudulent claims could be held to a minimum.

As in all governmental programs there would, of course, be the possibility of political abuse in the State systems. However, it would probably be absent in most States. Where it did creep in, it would not be all in one direction as it would be under a Federal system which would present a ready-made instrument at hand for any party which might desire to abuse it. Under the State systems, different States would tend to cancel each other out politically.

The State systems would not function perfectly from the start. In many instances it would take time for the programs to be developed to a high state of efficiency. However, the presence of Federal grants-in-aid and the setting up of standards would stimulate the process. Furthermore, the substantial enlargement of benefits for the aged and for children proposed under the old-age and survivors insurance system, would before long relieve the States of some of their financial burdens in these areas, and thus release funds for the total disability program.

Total disability obviously would affect a worker's earning record under the old-age and survivors insurance system. It should therefore be provided that the State authorities would certify to the Social Security Administration each quarter during which an individual was totally disabled and receiving benefits or rehabilitation under the State system. Then in computing the average wage for old-age and survivors insurance purposes, the numerator of the fraction would contain no wages for the quarters of total disability and the same quarters would be eliminated from the denominator.

#### CONCLUSION

The discussion of total disability leads naturally to a consideration of the proper role of a Federal system of contributory social security in a vast country like ours. Among the first tests to be applied is the degree of discretion involved in determining the eligibility for benefits. In old-age and survivors insurance such determination is largely objective, requiring but little discretionary decision. Total disability on the other hand involves a great deal of subjective consideration, both on the part of the individuals concerned and of those who administer claims. Disability claims vary greatly as to types and circumstances and require widely differing methods of individual treatment.

Because of these subjective characteristics, the handling of total-disability cases belongs peculiarly in the realm of the individual States and not in that of the Federal bureaucracy. Turning over to the Federal Government this area of individual care would mean further encroachment of Washington upon State authority, further building up of the Federal pay-roll vote and of the potential opportunity to exert Nation-wide political influence in the handling of benefit payments. The fact, as previously indicated, that the Federal plan might be set up originally with strict conditions as to eligibility and with limited benefits would provide little if any ultimate protection. Once on the statute books, continuous efforts would be

made to liberalize the eligibility rules and raise the benefit levels. The country would be well advised not to start on this seductive path in the first place.

It would be most unfortunate if, because of budgetary problems, the States should be persuaded to reject a properly devised total-disability-assistance program involving Federal grants-in-aid. A system of this kind would lead to tremendous improvement in the State systems which are now attempting to handle disability cases with but little Federal aid. It would have the great advantage of avoiding the serious and perhaps irrevocable error of providing total-disability benefits to individuals as a matter of right under a Federal contributory program.

APPENDIX II-C. STAFF FOR PERMANENT AND TOTAL DISABILITY  
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## Part III

### PUBLIC ASSISTANCE

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#### INTRODUCTION AND SUMMARY

##### *Public Assistance and Social Insurance*

In each of its two preceding reports,<sup>1</sup> the Advisory Council has stated that it believes the foundation of the social-security system should be the method of contributory social insurance with benefits related to prior earnings and awarded without a means test. In its first report the Council recommended extension of the protection of the old-age and survivors insurance system to virtually all persons who work, a substantial increase in benefits, and considerable liberalization of eligibility requirements for older workers. In its second report the Council recommended expansion of the Federal system of old-age and survivors insurance to include protection against loss of income arising from permanent and total disability.

The adoption of the recommendations in the Council's first two reports would, in the long run, greatly reduce the need for public assistance. Employed and self-employed persons would earn protection for themselves and their families while working, and—in the event of old age, permanent and total disability, or death—they or their families would receive insurance benefits. Assistance payments, however, still would be necessary for those who had unusual needs, or for those who were in need for reasons not covered by the insurance program, or for the few who for one reason or another were unable to earn insurance rights through work. Even in the long run there would be from 5 to 15 percent of the men over 65 years of age who would not be able to meet the eligibility requirements for retirement benefits. About half the women over 65 would not have retirement protection based on their own earnings, but most of them would have protection based on their husband's wage records. Assistance would continue to be necessary for children in need because of desertion by their father, for persons who become disabled before they have an opportunity to earn insurance rights, and for persons who had exhausted their rights under unemployment insurance or who were unprotected by that program. Finally, since the amount of insurance benefits must be geared to the more or less average case, some persons in unusual circumstances would need assistance to supplement their insurance benefits.

During the next decade or two there will be a much greater need for assistance than this continued long-run need for supplementing and filling in the gaps of the insurance program. In the immediate future large numbers of aged persons, children, and disabled persons will be forced to rely on assistance because old-age and survivors

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<sup>1</sup> See pp. 1-68 for report on old-age and survivors insurance and pp. 69-93 for report on permanent and total disability insurance.

insurance has failed to cover all occupations from the beginning of the program and because it is unable to cover those who are already retired or disabled, or the survivors of those who have already died when the expanded system first becomes effective. By 1955 there will still be an estimated 33 to 44 percent of the male population 65 years of age and over who will not be eligible for retirement benefits even though coverage is broadly extended, and only 10 to 13 percent of the women 65 years of age and over will have retirement rights based on their own employment. Even by 1960 there will be 19 to 31 percent of the men and 83 to 87 percent of the women in this age group without fully insured status (appendix III-A, table 1). Furthermore, under the Council's recommendations only persons with at least 10 years of coverage and a continuing attachment to the labor market would be eligible for permanent-and-total-disability benefits. A relatively small proportion of workers therefore would have such protection in the immediate future.

In its recommendations on public assistance, the Council has had in mind both the function of that program as a large-scale transitional system during the relatively short period which will elapse before the comprehensive social-insurance system becomes fully effective and the function of public assistance in a mature social-security system as a means of supplementing the basic insurance benefits and filling in the gaps in insurance protection. Assistance is the program which takes final responsibility for meeting need when all methods of preventing dependency have failed.

In the Council's opinion, public assistance should continue to be administered on the basis of a strict needs test with all income being taken into account in determining both eligibility and the amount of the payment. A relaxation of the needs test in assistance would result either in more funds being expended for assistance than would otherwise be necessary or, if additional funds were not made available, the increasing number of eligible persons would necessarily force down the level of payments for those who need help most.

The development of the proper relationship between social insurance and public assistance is a matter of major concern to the Council. We believe that it is of great importance that the social-insurance system be strengthened at the earliest opportunity through extension of coverage, increases in benefit amount, and liberalization in eligibility requirements so that insurance becomes the recognized basic method for dealing with income loss. As stated in our report on old-age and survivors insurance, p. 1:

Differential benefits based on a work record are a reward for productive effort and are consistent with general economic incentives, while the knowledge that benefits will be paid—irrespective of whether the individual is in need—supports and stimulates his drive to add his personal savings to the basic security he has acquired through the insurance system. Under such a social-insurance system, the individual earns a right to a benefit that is related to his contribution to production. This earned right is his best guaranty that he will receive the benefits promised and that they will not be conditioned on his accepting either scrutiny of his personal affairs or restrictions from which others are free.

Public assistance payments from general tax funds to persons who are found to be in need have serious limitations as a way of maintaining family income. Our goal is, so far as possible, to prevent dependency through social insurance and thus greatly reduce the need for assistance.

If social-insurance payments are allowed to be lower on the average than assistance payments, public support of the insurance principle will be undermined. People expect benefits under a contributory program to be at least as high as grants made from general taxation as a consequence of need. At the beginning of 1941 this was the case. The national average for retirement benefits under the insurance program was slightly higher than the national average for assistance—\$22.60 as compared with \$20.49. Since that time, however, the level of assistance payments has increased considerably as prices have increased and the Federal Government has twice increased its amount of participation in the assistance program, once in 1946 and again in 1948. No comparable increase has been made in the level of payments under the old-age and survivors insurance program. At the beginning of 1945, even before the Federal Government had increased its rate of participation in assistance, the national average for old-age assistance had risen to \$28.52, while the average for retirement benefits was \$23.73. According to the latest available figures (June 1948), the assistance average has risen to \$38.18 as compared with \$25.13 for insurance. In October of 1948 under Public Law 642 (80th Cong., 2d sess.), the amount in old-age assistance can be increased to about \$43 for the number of recipients now on the old-age-assistance rolls without additional cost to the States and local units of government. The following table shows the progressive disparity in amounts paid under the two programs:<sup>a</sup>

TABLE A.—*Comparison of average payments under old-age assistance and for retired workers under old-age and survivors insurance*

	Old-age assistance	Retired worker under old- age and survivors insurance
January 1941.....	\$20. 49	\$22. 60
January 1945.....	28. 52	23. 73
June 1948.....	38. 18	25. 13

In October of 1948 the old-age assistance average will again increase substantially because of changes in the Federal law, while the old-age and survivors insurance average will be only a few cents more.

The fact that these changes in the public assistance program have preceded changes in social-insurance coverage and benefits is in our opinion a matter of serious concern. Unless the insurance system is expanded and improved so that it in fact offers a basic security to retired persons and to survivors, there will be continual and nearly irresistible pressure for putting more and more Federal funds into the less constructive assistance programs.

<sup>a</sup> If it were possible to compare the national averages for aged couples under the two programs, the disparity would undoubtedly be greater than that shown above. Aged couples under insurance are entitled to only half again as much as the single retired worker with the same wage record, while the aged couple under assistance may receive up to twice as much as the single person and on the average do receive much more than half again as much. The averages shown above for assistance include those cases in which both a husband and wife are receiving payments, while the averages for old-age and survivors insurance include only the retired worker. If the wife's benefits under old-age and survivors insurance were averaged in, the figure for June 1948 would be \$21.98 per individual as compared with \$25.13 for retired workers.



### *The Nature of the Program*

Responsibility for public assistance in the United States is now shared by the local, State, and Federal Governments. Until 1936 this responsibility was entirely local and State, except for the emergency programs during the early thirties. Earlier still, the responsibility for relief was entirely local. Even now all expenditures for general assistance come from local funds in 15 States; half or more than half of the funds for general assistance come from the State in only 18 States; and in only 4 States are all expenditures for general assistance financed by the State (appendix III-A, table 14).

With the passage of the Social Security Act, the Federal Government assumed substantial responsibility on a continuing basis for public assistance to the aged, to the blind, and to dependent children. Within these areas the Federal Government has supplied large sums, at first on a 50-50 matching basis within maximums of \$30 for old-age assistance and aid to the blind, while the basis was \$1 for each \$2 for aid to dependent children within maximums of \$18 for the first child and \$12 for each additional child aided in the family. In 1939 the Federal maximums for old-age assistance and aid to the blind were increased to \$40 and Federal matching for aid to dependent children was established on a 50-50 basis. Since October 1, 1946, Federal funds have been paid under a matching formula which established the Federal share of assistance payments at two-thirds of the first \$15 of the average monthly payment per recipient, plus one-half the remainder within maximums of \$45 for old-age assistance and aid to the blind; in aid to dependent children the Federal share has been two-thirds of the first \$9 of the average payment per child plus one-half of the remainder within maximums of \$24 for the first child and \$15 for each additional child aided.

In October 1948 the Federal participation in the three State-Federal programs will increase again under Public Law 642. The Federal Government will provide three-fourths of the first \$20 of the average monthly payment plus one-half of the remainder within maximums of \$50 for old-age assistance and aid to the blind; the Federal share for aid to dependent children will be three-fourths of the first \$12 of the average payment per child plus one-half the remainder within the maximums of \$27 for the first child and \$18 for each additional child. Except for the emergency programs in the early thirties, no Federal funds have been made available for general assistance.

The Federal Government has not assumed responsibility for the operation of the three public-assistance programs for which Federal aid is provided. Aside from sharing in the costs of assistance and administration, the role of the Federal Government has been limited to that of setting minimum standards and providing technical advice and consultation on problems of administration.

Because public assistance is essentially a State responsibility, considerable variation in operating policies and in eligibility requirements, including definitions of need, appears among the States. The wide range in the proportion of persons receiving assistance in the several States and the range in the amount of the average payment not only indicate State differences in the need to be met and ability to meet that need, but also reflect wide State diversity in standards and policies. The proportion of the population aged 65 or over who were in receipt

of old-age assistance in December 1947 ranged from a high of 581 per 1,000 in Oklahoma, and more than 400 per 1,000 in Colorado, Georgia, and Texas, to a low of less than 100 per 1,000 in Delaware, the District of Columbia, Maryland, New Jersey, New York, and Virginia (appendix III-A, chart 3). The average payment per recipient for old-age assistance ranged from \$84.72 a month in Colorado and \$57.10 in California to \$16.90 in Georgia and \$15.87 in Mississippi (appendix III-A, chart 2). Similar variation occurs in the other programs. The Council does not regard an investigation of the policy decisions by the several States in connection with public assistance as part of its mandate. Nevertheless, the very wide variation among the States suggests that Congress might want to inform itself further concerning the effect of Federal grants-in-aid upon the policy decisions of the several States. A special investigation of this matter is worthy of consideration.

Wide differences are also apparent in the extent to which expenditures and case loads of the various public assistance programs have been affected by general economic conditions. The rise in employment brought about by the war and postwar boom was sharply reflected in rapidly declining expenditures for general assistance. Expenditures by the States and localities for the general assistance program dropped from \$493,900,000 in 1940 to \$104,800,000 in 1945 and rose to \$168,200,000 in 1947. (See appendix III-A, table 13, for case loads and expenditures, 1936-47.) Although expenditures for aid to dependent children increased from \$128,300,000 in 1940 to \$151,400,000 in 1945 and \$275,600,000 in 1947, a relationship between this program and business conditions is reflected in the changes in the number of families on the rolls. At the end of the 1940 fiscal year, 333,000 families were receiving aid as compared with 255,600 at the end of the 1945 fiscal year. The 1947 case load, however, exceeded the 1945 figure partly, no doubt, because the rise in the number of broken homes, in the birth rate, and in the cost of living made it necessary for families to seek aid to supplement income from other sources. (See appendix III-A, table 12.) Changes in the number of recipients of old-age assistance and aid to the blind have not reflected general economic conditions to the same extent as general assistance or aid to dependent children. Although the number of recipients on old-age assistance did decline somewhat in 1943, 1944, and 1945, the 1945 figure was somewhat more than 2,000,000 as compared with somewhat less than 2,000,000 in 1940. By June of 1947 there were 2.3 million persons on the old-age assistance rolls, the same number as were on the rolls in March 1948, the last date for which figures are available. Expenditures for old-age assistance and aid to the blind rose continually throughout this period since the level of assistance payments increased enough to offset the declining number of recipients in those years when the number did decline. (See appendix III-A, tables 10 and 11.)

The varying effect of general economic conditions on the different programs reflects the fact that general assistance and, to a less extent, aid to dependent children are available to persons who are employable in times of good business conditions. On the other hand, old-age assistance and aid to the blind are limited for the most part to persons unable to work regardless of economic conditions. A study conducted in 1944 in 21 States indicated that only about 20 percent of

the old-age assistance recipients were under age 70 and about 45 percent were age 75 or over. To some extent, the differences in expenditures and case loads of the various programs may also reflect the absence of Federal participation in general assistance and the lower rate of Federal participation in aid to dependent children. States and localities have not been encouraged to put money into these programs to the same extent as in old-age assistance and aid to the blind.

Several other factors should be taken into account in seeking an explanation of the differences in expenditures from one year to the next and among the various programs. These factors include (1) the increase in the number of aged persons in the population from about 9 million in 1940 to about 10.8 million in 1947, (2) the long waiting lists of eligible applicants during the early years of the State-Federal programs, a fact which indicates that the number of recipients was lower in the early years because funds were not available to meet existing need (witness the 260,000 applications for old-age assistance pending in January 1940 as compared with 42,000 in January 1945), and (3) the increase in expenditures for assistance resulting from rising prices.

#### ***Major Defects in the System of Federal Grants-in-Aid for Public Assistance***

The Council believes that the basic features of the present arrangements are sound. In particular, it believes that the diversity of conditions and traditions among the States makes it desirable that the States retain wide discretion in determining needs, eligibility, and administrative policies. The Council feels, however, that the present system of Federal grants-in-aid for public assistance has many gaps and inequities. Federal participation in aid to dependent children is far less adequate than in old-age assistance and aid to the blind. Needy persons who require medical attention cannot receive adequate medical services within the limits of the ceilings on Federal matching. Moreover, many persons who do not fall within the categories of the aged, the blind, or dependent children may be in dire need of public assistance. As now constituted, the Social Security Act ignores the needs of this group. In point of fact, the act has led some States to apply virtually all the State and local funds available for public assistance to the specific programs for which Federal reimbursement is available, leaving little or no money for so-called general assistance. State funds are thus concentrated on programs which have Federal grants-in-aid.

There is an immediate and imperative need to redress this imbalance by eliminating the existing gaps and correcting the inequities in the public assistance titles of the Social Security Act. More extensive Federal participation in such programs has been recommended because of the conviction that readjustments are urgently needed and cannot otherwise be achieved as expeditiously. The Council believes, however, that the total amount of Federal expenditure for assistance should decline as the insurance program becomes more fully operative.

In making recommendations to improve the present Federal policy in assistance, the Council has been guided by the following major considerations:



1. The public-assistance program should not interfere with the growth and improvement of the insurance program.

2. The Federal Government's participation in public assistance should be designed to encourage the best possible administration by the States and localities and promote adequate support of the needy by the States and the localities.

3. The Federal Government should continue its present practice of setting only minimum standards relating to conditions of eligibility and administration but, beyond the minimum, it should leave to the States wide discretion both in determining policies and in setting standards of need.

### ***Summary of Recommendations***

1. *Increased payments for aid to dependent children.*—The Federal Government's responsibility for aid to dependent children should be made comparable to the responsibility it has assumed for old-age assistance and aid to the blind. In determining the extent of Federal financial participation, the needs of adult members of the family as well as of the children should be taken into consideration. Federal funds should equal three-fourths of the first \$20 of the average monthly payment per recipient (including children and adults) plus one-half the remainder, except that such participation should not apply to that part of payments to recipients in excess of \$50 for each of two eligible persons in a family and \$15 for each additional person beyond the second.

2. *Federal grants for general assistance.*—Federal grants-in-aid should be made available to the States for general assistance payments to needy persons not now eligible for assistance under the existing State-Federal public assistance programs. Federal financial participation should equal one-third of the expenditures for general assistance payments, except that such participation should not apply to that part of monthly payments to recipients in excess of \$30 for each of two eligible persons in a family and \$15 for each additional person beyond the second. In addition, the Federal Government should match administrative expenses incurred by the States for general assistance on a 50-50 basis, in the same manner that it now shares in administrative expenses for the existing State-Federal public assistance programs. The proposed grants-in-aid for general assistance, however, should not be considered as a substitute for a program designed to deal with large-scale unemployment.

3. *Medical care for recipients.*—To help meet the medical needs of recipients of old-age assistance, aid to the blind, and aid to dependent children, the Federal Government should participate in payments made directly to agencies and individuals providing medical care, as well as in money payments to recipients as at present. The Federal Government should pay one-half the medical-care costs incurred by the States above the regular maximums of \$50 a month for a recipient (\$15 for the third and succeeding persons in a family receiving aid to dependent children) but should not participate in the medical costs above the regular maximums which exceed a monthly average of \$6 per person receiving old-age assistance or aid to the blind and a monthly average of \$3 per person receiving aid to dependent children.

State public-assistance agencies should be required to submit plans to the Social Security Administration for its approval, setting forth



the conditions under which medical needs will be met, the scope and standards of care, the methods of payment, and the amount of compensation for such care.

4. *Care of the aged in medical institutions.*—The Federal Government should participate in payments made to or for the care of old-age-assistance recipients living in public medical institutions other than mental hospitals. Payments in excess of the regular \$50 maximum made to recipients living in public or private institutions or made by the public-assistance agency directly to those institutions for the care of aged recipients should be included as a part of medical-care expenditures under recommendation 3. To receive Federal funds to assist aged persons in medical institutions under either public or private auspices, a State should be required to establish and maintain adequate minimum standards for the facilities and for the care of persons living in these facilities. These standards should be subject to approval by the Social Security Administration.

5. *Residence requirements.*—Federal funds should not be available for any public-assistance program in which the State imposes residence requirements as a condition of eligibility for assistance, except that States should be allowed to impose a 1-year residence requirement for old-age assistance.

6. *Study of child health and welfare services.*—A commission should be appointed to study current child health and welfare needs and to review the programs operating under title V of the Social Security Act relating to maternal and child health services, services for crippled children, and child welfare services. The commission should make recommendations as to the proper scope of these services and the responsibilities that should be assumed by the Federal and State governments, respectively.

### ***The Cost of the Council's Recommendations***

Assuming the continuation of current conditions, it is estimated that the annual cost to the Federal Government of all the public-assistance recommendations of the Council will range between about \$270,000,000 and \$340,000,000. If the Council's recommendations for social insurance become effective, the cost of assistance to the Federal Government should gradually decline as insurance benefits eliminate or reduce the need for assistance among more and more persons affected by old age, loss of parental support, or permanent and total disability.

These estimates are subject to a considerable margin of error since many unpredictable factors will influence the Federal cost of these recommendations. As public assistance is a matching program, that cost is determined by the extent to which the States take advantage of the offer of Federal funds as well as by the extent of the actual need to be met. The availability of State revenues to finance a share of public assistance, the competing demands of other governmental functions, and State and local policies in determining need and granting aid are all important factors in determining costs.

These estimates are based on recent case loads which may prove unreliable guides for the future. Changes in social and economic conditions would have a substantial effect on the need for assistance and thus on future case loads. The error which can arise from this factor is limited, however, by the fact that the recommendations in this report are not intended to meet the problem of mass unemploy-

ment in the event of a severe or even moderately severe depression. In its report to be submitted on unemployment insurance, the Council plans to consider the problem of the responsibility of the Federal Government for the income maintenance of workers in time of business depression. (Note: The Council was not able to carry out this plan. See pp. 178-180). Yet, even though the recommendations in this report pertain to the needs that arise in times when employment is good, these needs are nevertheless greatly influenced by changes in price levels and by even relatively minor changes in levels of employment and unemployment. Changes in other social provisions to meet or prevent need, such as social insurance, dependents' allowances for servicemen, veterans' benefits, and health programs, may also have a significant effect on the extent to which the assistance programs will be called on to aid needy persons.

The extent of need for general assistance and for medical care (including care of the aged in public medical institutions) will not be completely clear until Federal funds become available for these types of aid. Present case loads in general assistance and present expenditures for medical care reflect more nearly what States and localities are able and willing to spend than the actual need for these services. As long as the means to meet need are lacking, much need remains hidden. Few people apply for help that they know they cannot get.

Because of the uncertainty of the effect of many of these factors, the estimates have been stated as a range. Separate estimates have been given for each recommendation.

### ***Financing the Public Assistance Programs***

The Council believes that, as provided in Public Law 642, the Federal Government should, for the near future, meet three-fourths of the first \$20 of the average monthly payment per recipient and half the remainder within given maximums for old-age assistance and aid to the blind, and that Federal participation in aid to dependent children should be made comparable. The Council believes that the maximums up to which the Federal Government makes grants should be uniform for these three programs. As the burden on the States is reduced through the expansion and liberalization of the Federal insurance program, the rate as well as the total amount of Federal participation in these assistance programs should be reduced. For general assistance, the Council recommends a much lower rate of participation by the Federal Government than for the other parts of the assistance program.

The Council believes that, in general, the present method of participation by the Federal Government in the existing State-Federal programs is well adapted to a public-assistance program which leaves the States wide discretion in determining eligibility for assistance and in making administrative policies. Under such a program, the Council believes that it is wise to have the Federal Government and the States share equally in the costs above some low figure such as \$20 a month per recipient. In some of the proposals which the Council has examined, such as those for relating the rate of Federal participation to the per capita income in the State, the amount of State financial interest would not seem sufficient in the lowest-income States to guarantee prudent consideration of the level of payments.<sup>3</sup> Under

<sup>3</sup> See *Annual Report of the Federal Security Agency, Section One, Social Security Administration, 1947*, pp. 109-110, for discussion of typical plan.

one per capita income plan studied, several States would be able to get three Federal dollars for each State and local dollar even if they made average assistance payments well above the national average. Low-income States could, for example, make average payments of nearly the Federal maximum of \$50 for old-age assistance and the Federal Government would still pay three-fourths of the total cost.

The present method, as well as those which would vary the rate of Federal participation in accordance with per capita income, provides Federal funds which represent a larger proportion of the costs of assistance in most low-income States than in the high. Because the average assistance payment in low-income States is usually low, Federal participation at the rate of three-fourths of the first \$20 of average payments will mean that the Federal Government will bear nearly three-fourths of the total expenditures for assistance payments in most of the lowest-income States. For example, in the calendar year 1947, when the rate of Federal participation was two-thirds of the first \$15 in old-age assistance and aid to the blind and two-thirds of the first \$9 in aid to dependent children, the Federal Government paid only 52.7 percent of all costs of old-age assistance in the United States, 50.6 percent of the total costs of approved plans for aid to the blind, and 39.4 percent of the total costs for aid to dependent children. In the five States with the lowest per capita income, however, Federal participation in old-age assistance ranged from 62.5 to 64.7 percent of total costs; in aid to the blind the Federal share ranged from 60.5 to 63.6 percent; and in aid to dependent children from 60.5 to 65.8 percent.

### ***Federal, State, and Local Responsibility***

Although it is beyond the scope of the present study to analyze the policy which should govern the over-all financing of public services in the United States and the relationship of the Federal Government to the States and localities, the Council wishes to express its belief that the only sound long-run method of preserving a workable State-Federal system lies in the readjustment of State-Federal tax and fiscal relationships. The principles of citizen-participation in Government and maximum State and local responsibility will be promoted if States and localities are better able and more willing than at present to raise the funds necessary to finance their own activities. Two world wars and a major depression have introduced a degree of central fiscal authority and an aggregate tax burden undreamed of 50 years ago. Indeed, within the last few years the demands upon the Federal Government have increased much faster than anyone would have anticipated. Several years ago forecasts of the postwar Federal budget usually ran in the neighborhood of \$15,000,000,000 to \$25,000,000,000 a year. For example, the Committee for Economic Development in a study of the tax problem assumed that the budget of the Federal Government would be about \$18,000,000,000 in dollars of 1943 purchasing power or about \$23,000,000,000 in dollars of 1947 purchasing power. The budget is now more than \$40,000,000,000 and is likely to remain at that level. Because of these developments and because of the ever-increasing public demand for services from all units of government, means must be found to make sure that State and local governments have revenues adequate to finance the functions which they can best perform. These broad problems of inter-



governmental relationships need the most careful study so that financial self-sufficiency and harmonious fiscal policy among the various governmental units may be promoted to the greatest extent possible.

Under the best possible division of fiscal responsibility, however, there will remain wide differences in the available tax and revenue resources of the States and localities. In order to encourage the States to provide the assistance required for health and decency, Federal participation in financing old-age assistance, aid to dependent children, and aid to the blind should be continued on a basis whereby the Federal Government will pay a higher proportion of the total cost of assistance in the low-income States than in those with high per capita income.

The Council believes, furthermore, that differences between the needs and resources of the various counties within States require a flexible use of State and Federal funds on an equalization basis so that State plans may be uniformly and equitably in effect in all parts of a State. The Council believes that this end may be attained by State action and by Federal participation in the development of State plans, and that further Federal legislation is not now required to effect the desired end.

## RECOMMENDATIONS

### 1. Increased Payments for Aid to Dependent Children

*The Federal Government's responsibility for aid to dependent children should be made comparable to the responsibility it has assumed for old-age assistance and aid to the blind. In determining the extent of Federal financial participation, the needs of adult members of the family as well as of the children should be taken into consideration. Federal funds should equal three-fourths of the first \$20 of the average monthly payment per recipient (including children and adults) plus one-half the remainder, except that such participation should not apply to that part of payments to recipients in excess of \$50 for each of 2 eligible persons in a family and \$15 for each additional person beyond the second*

Today more than 1.1 million children under 18 years of age are receiving aid to dependent children through the State-Federal program because one or both of their parents are dead, absent from the home, or incapacitated. These children, regardless of the State in which they now live, will someday find their place in the productive activities of the Nation and, should the necessity arise, will take part in defending our Nation. Many of these children will be seriously handicapped as adults because in childhood they are not receiving proper and sufficient food, clothing, medical attention, and the other bare necessities of life. The national interest requires that the Federal Government provide for dependent children at least on a par with its contributions toward the support of the needy aged and blind.

Since Federal grants to States under the Social Security Act were first available, the Federal Government has made it possible for States to provide higher assistance payments to the needy aged and the needy blind than to those who meet the act's definition of "dependent children." The maximum amount of assistance payments in which the Federal Government will participate, beginning October



1, 1948, will be \$50 for old-age assistance and aid to the blind and \$27 for the first child and \$18 for each additional child in a family receiving aid to dependent children. The Federal share of payments for old-age assistance and aid to the blind will be three-fourths of the first \$20 of the average monthly payment per recipient, plus one-half the remainder within the maximums. The Federal share in aid to dependent children will be three-fourths of the first \$12 of the average monthly payment per child, plus one-half the remainder up to the maximums. Thus the Federal Government will contribute a maximum of \$30 a month toward meeting the needs of a recipient of old-age assistance or aid to the blind, while the maximum Federal contribution in aid to dependent children will be \$16.50 for the first child in a family and \$12 for each additional child aided. Yet, by and large, families with dependent children need as much in assistance payments as do aged and blind persons.

Further evidence of the favored position of old-age assistance and aid to the blind is found in the proportion of the total expenditures for assistance supplied by the Federal Government in States with approved plans. In 1947, under the matching formula then in effect,<sup>4</sup> Federal funds represented 53 percent of total expenditures for old-age assistance and 51 percent for aid to the blind, but only 39 percent for aid to dependent children. (See appendix III-A, tables 3, 4, and 5.) The Federal Government contributed \$19.05 a month per recipient of old-age assistance, as compared with \$6.92 per person receiving aid to dependent children (including the children and one adult in each family). In all States the average payment to recipients as well as the average amount paid from Federal funds was lower in aid to dependent children than in old-age assistance. (See chart A, p. 107.)

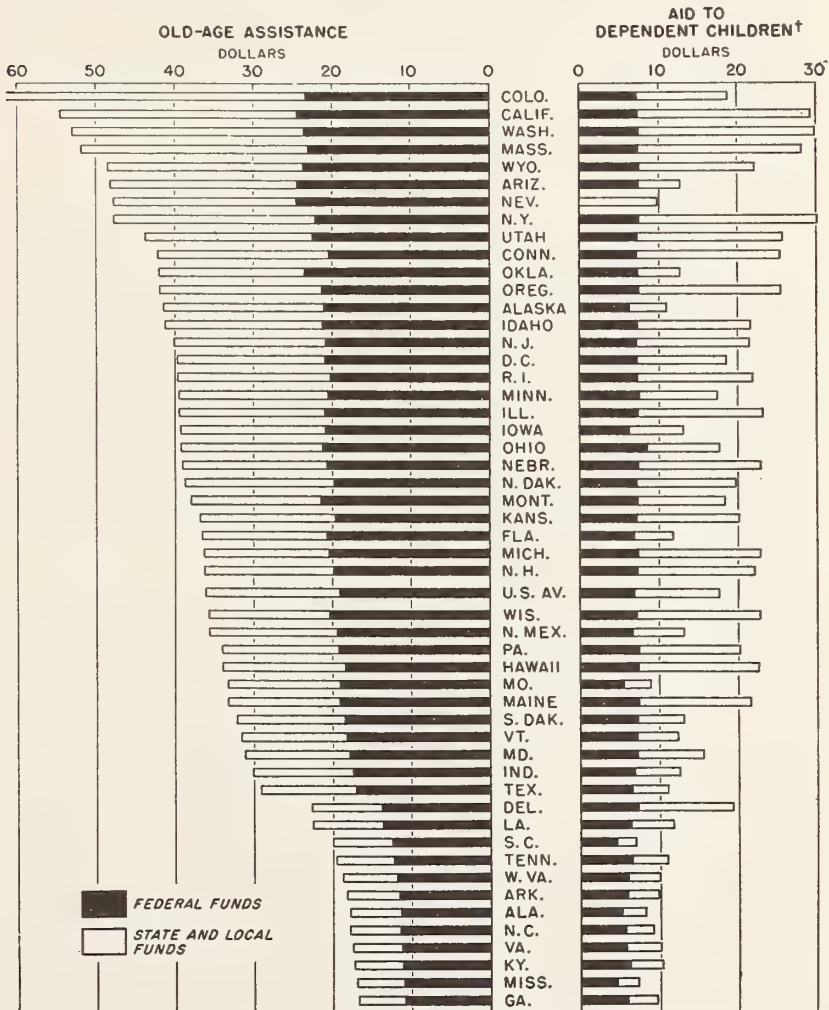
We believe that it is sound national policy for the Federal Government to make it possible for the States to provide payments for aid to dependent children comparable to those for the needy aged and blind. This result could be substantially attained if the Federal maximums for aid to dependent children were established at \$50 for each of the first two persons in a family and \$15 for each additional person and if the Federal Government shared in assistance payments within these maximums on a basis similar to that in old-age assistance and aid to the blind. Under our recommendation, Federal funds for aid to dependent children would equal three-fourths of the first \$20 of the average payment per recipient, plus one-half the remainder within the maximums. The maximum Federal share would be \$30 for each of the first two persons in a family and \$11.25 for each additional person.

In determining the extent of Federal financial participation, the needs of the adult members of the household who are essential to the well-being of the children should be taken into consideration. Thus for a family consisting of a mother and one child, the Federal Government should participate with the State in an assistance payment to the child and to the mother. The mother and child would thus be entitled to the same consideration from the Federal Government as a husband and wife when both receive old-age assistance.

<sup>4</sup> The matching formula in effect from October 1, 1946, to September 30, 1948, set the Federal share of assistance payments at two-thirds of the first \$15 of the average monthly payment per recipient, plus one-half the remainder within the maximums of \$45 for old-age assistance and aid to the blind, and two-thirds of the first \$9 of the average payment per child plus one-half of the remainder within the maximums of \$24 for the first child and \$15 for each additional child aided in a family receiving aid to dependent children.

CHART A

OLD-AGE ASSISTANCE AND AID TO DEPENDENT CHILDREN: AVERAGE MONTHLY PAYMENT PER RECIPIENT FROM FEDERAL, AND STATE AND LOCAL FUNDS, CALENDAR YEAR 1947



†ONE ADULT PER FAMILY, AS WELL AS THE CHILDREN, COUNTED AS A RECIPIENT.

Many families, of course, would not receive payments as high as the maximums set for Federal participation, since the amount of the payments would depend on the extent of the need of the children and adults and on the willingness and ability of the States and localities to put up their share of the cost. In October 1947, 34 percent of all payments for aid to dependent children were below the existing low maximum in the Federal law. (For distribution of payments for October 1947, see appendix III-A, table 9.)

The estimated additional annual cost to the Federal Government for the liberalized provisions for aid to dependent children that we have recommended would range from a low of \$135,000,000 to a high of \$160,000,000. This estimate is based on March 1948 case loads, the latest month for which data are available.

## 2. Federal Grants for General Assistance

*Federal grants-in-aid should be made available to the States for general assistance payments to needy persons not now eligible for assistance under the existing State-Federal public assistance programs. Federal financial participation should equal one-third of the expenditures for general assistance payments, except that such participation should not apply to that part of monthly payments to recipients in excess of \$30 for each of two eligible persons in a family and \$15 for each additional person beyond the second. In addition, the Federal Government should match administrative expenses incurred by the States for general assistance on a 50-50 basis, in the same manner that it now shares in administrative expenses for the existing State-Federal public assistance programs. The proposed grants-in-aid for general assistance, however, should not be considered as a substitute for a program designed to deal with large-scale unemployment.<sup>5</sup>*

The Social Security Act limits Federal participation in the costs of public assistance to three groups of needy persons—the aged, the blind, and certain children. Federal funds may be used along with State funds for an assistance payment to a man aged 65 or over, but not to his 64-year-old wife, who may be just as much in need. Federal funds are available for assistance payments to a person handicapped by blindness but not to one incapacitated by paralysis. The Federal Government will share in the cost of aid to needy children living with certain relatives under conditions specified in the Social Security Act, but if the children are living with relatives other than those enumerated or are living with their parents under conditions other than those specified, the Federal Government assumes no share of the cost of assistance for them, regardless of how needy the children may be.

The persons who are not eligible for public assistance under the Social Security Act and who require assistance during periods of high employment usually have physical or mental handicaps, suffer from temporary or chronic illness, or are unable to earn a living because of age or home responsibility. In addition, there are some persons who, even during periods of high employment, are temporarily unemployed, are ineligible for unemployment insurance benefits, lack resources, and therefore require assistance.

<sup>5</sup> Four members of the Council do not favor Federal grants-in-aid for general assistance, but do favor the expansion of aid to the needy blind to include other disabled persons. The reasons for this opinion are given in appendix III-B.

Three members of the Council believe that its recommendations on Federal grants-in-aid for general assistance should be as generous as those for other categories.



The State-Federal vocational rehabilitation program provides payments for the maintenance of needy disabled persons when they are receiving training or services directed toward physical restoration, but that program provides no financial aid for their families. Payments for maintenance are made to facilitate rehabilitation of disabled individuals who must meet three basic conditions of eligibility: (1) They must be of employable age, (2) they must have an occupational handicap by reason of disability, and (3) it must be possible for them to become employable or more suitably employed through rehabilitation service. Only 13,062 persons received maintenance payments under this program during the fiscal year 1946-47. The responsibility for other persons without resources, who are not eligible for assistance under the existing State-Federal programs, now rests with the States and localities.

In March 1948, 402,000 cases (900,000 persons) were on State and local general assistance rolls, and assistance expenditures from State and local funds totaled \$18,000,000 for the month. The average payment per case ranged from \$67.16 in New York to \$10.39 in Mississippi.

Wide differences in average payments are found not only among States, but also among communities within States. In some communities, general assistance payments are grossly inadequate. In one community, for example, the local public welfare agency granted only \$2.50 per family per month to meet all the needs of the destitute families on the rolls. In another county, general assistance payments averaged \$2.75 per person per month.

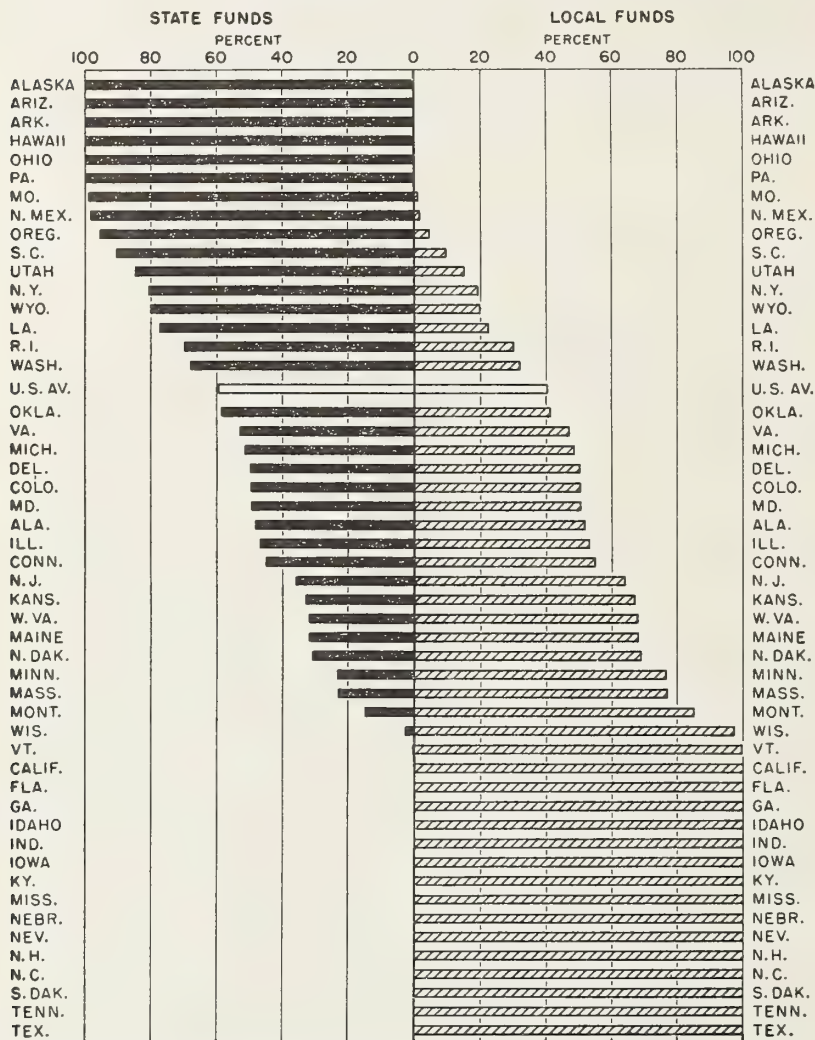
In 15 States general assistance is financed exclusively by the localities. In 15 additional States the local units of government bear more than half the costs (see chart B, p. 110). In view of the fact that many States have shown little interest in contributing to the general assistance program within their own boundaries, one may well ask why the Federal Government should contribute. The Council does not believe that lack of interest on the part of some States should deter the Federal Government from offering to bear a part of the cost of general assistance. The Council believes that as in old-age assistance, aid to the blind, and aid to dependent children, State financial participation should be made a condition of Federal aid to general assistance. When the financing of any assistance program is dependent upon the revenue that can be raised by local units of government without substantial contributions from a governmental unit with broader revenue-raising resources, the assistance needs of persons residing in impoverished communities cannot be met.

Many localities lack revenues sufficient to finance the other governmental functions imposed upon them and at the same time to furnish adequate aid to needy persons. States and localities tend to put the money available for public assistance into the programs in which State and local dollars will be augmented by Federal matching. This situation is particularly true in low-income States. Consequently, the provisions for public assistance in the Social Security Act, which recognize the needs of only those among the aged, the blind, and the dependent children who meet prescribed conditions of eligibility, sometimes have the effect of depriving other needy persons of adequate help from State and local funds.



CHART B

GENERAL ASSISTANCE: DISTRIBUTION OF EXPENDITURES FOR ASSISTANCE BY  
SOURCE OF FUNDS, FISCAL YEAR 1946-47<sup>1</sup>



<sup>1</sup> Includes payments for maintenance assistance only; amounts for medical care, hospitalization, and burial are excluded except when allowances for such purposes are included in cash payments to recipients.

The Council believes that Federal financial participation in general assistance, even in the limited manner recommended herein—whereby the State and local unit of government would have to expend \$2 for assistance payments to receive \$1 in Federal funds—will, in most States, result in better provision for needy individuals. Federal financial help is especially important for the low-income States. Furthermore, the establishment of minimum Federal requirements for the operation of a State-Federal general assistance program as a condition of Federal aid would improve the administration of general assistance in all parts of the country. These requirements should be similar to those for the existing State-Federal public assistance programs, and should create a State-Federal partnership in general assistance like that in the other programs. The proposed program would continue to be essentially a State and local responsibility, but Federal participation would result in more nearly equitable and adequate treatment for persons in need of general assistance. The Social Security Administration would be charged with the duty of ascertaining that each State receiving Federal funds had a State-wide general assistance plan in effect which was administered in a proper and efficient manner, with the selection of personnel on a merit basis. General assistance would be available to needy persons regardless of where they happened to live in a State, and objective methods of determining eligibility for and the amount of assistance would be required of all units of government administering the program.

Because the proposed general assistance program should provide subsistence to persons who cannot be self-supporting and for whom other provision is lacking, we believe that, as a condition of Federal financial participation, a State should be precluded from denying any person general assistance on the basis of his residence or citizenship. Without such a safeguard, it cannot be expected that all persons in need of assistance would receive aid. Today, although the State-local general assistance programs are widely assumed to assist all needy persons not covered by the State-Federal programs, State laws, as well as interpretations by local autonomous units of government administering the programs, generally provide continuing assistance only to those who meet State and local residence requirements. (See recommendation 5, p. 116, for discussion of residence requirements.)

In order to help persons who need assistance because of unemployment to obtain jobs and to avoid paying public funds to employable persons when suitable employment is available, the States should be required to assure registration and clearance of employable applicants for assistance with the public employment service. The States should also be required to refer all persons likely to benefit from the State-Federal vocational rehabilitation program to the agency administering that program.

Although we recommend that the Federal Government finance only one-third of the cost of general assistance payments made by the States within the maximums specified, we believe it is desirable to match the administrative costs incurred by the States on a 50-50 basis. Then the Federal Government will share uniformly in the administrative costs for all State-Federal public assistance programs. This uniformity will simplify recording for purposes of reimbursement in the States that integrate general assistance with one or more of the existing State-Federal assistance programs.

In recommending Federal grants-in-aid to the States for general assistance, we do not intend that a general assistance program should be considered as a preferred method of dealing with large-scale unemployment if it should again occur. Neither should general assistance be a substitute for unemployment insurance. These subjects are discussed in the report by the Council on pages 178-180. General assistance would serve the purpose of providing an underpinning for the other social measures by aiding those for whom no other means of support is available.

It is difficult to estimate with accuracy the long-range costs of a State-Federal general assistance program. General assistance is more sensitive to changes in economic conditions than are any of the other public-assistance programs. In the last 12 years, expenditures for general assistance have ranged from a high of \$472,000,000 in the fiscal year 1938-39 to a low of \$85,500,000 in 1944-45 (see appendix III-A, table 13). Expenditures for general assistance payments from State and local funds in 1947 amounted to \$164,000,000.

It is estimated that under a continuation of current economic conditions, the annual cost to the Federal Government under the proposed general assistance program would range from a low of \$65,000,000 to a high of \$75,000,000 for assistance payments, and from \$13,000,000 to \$15,000,000 for administrative expenses. This estimate is based on the assumption that the October 1947 case loads represent an average annual case load. This assumption, of course, would be invalid if current economic conditions changed materially.

### 3. Medical Care for Recipients

*To help meet the medical needs of recipients of old-age assistance, aid to the blind, and aid to dependent children, the Federal Government should participate in payments made directly to agencies and individuals providing medical care, as well as in money payments to recipients as at present. The Federal Government should pay one-half the medical care costs incurred by the States above the regular maximums of \$50 a month for a recipient (\$15 for the third and succeeding persons in a family receiving aid to dependent children) but should not participate in the medical costs above the regular maximums which exceed a monthly average of \$6 per person receiving old-age assistance or aid to the blind and a monthly average of \$3 per person receiving aid to dependent children.*

*State public-assistance agencies should be required to submit plans to the Social Security Administration for its approval, setting forth the conditions under which medical needs will be met, the scope and standards of care, the methods of payment, and the amount of compensation for such care.*

The present Social Security Act limits Federal financial participation in assistance payments to those which are paid to the recipients in money. Consequently, if the cost of medical care furnished to recipients of assistance is met by the State or local agency through direct payments to physicians or other suppliers of medical care, the expenditures must now be borne entirely by the State and local governments. Under our recommendations, total money payments in which the Federal Government will be able to participate will be limited to \$50 monthly (\$15 for the third and succeeding persons in



a family receiving aid to dependent children) except when medical care is needed. In most cases these amounts or more will be needed to meet living costs other than medical care. Consequently, Federal funds will be available as they are now to only a very limited extent for money payments to recipients to enable them to arrange for their own medical care.

Most States are now financing the medical care they provide in large part from State and local funds. Since States with comparatively meager resources cannot afford to spend funds for which they cannot get Federal matching, they provide little or nothing for medical care, while in almost all States the medical care provided is inadequate.

It would seem desirable for the Federal Government to participate in the cost of necessary medical care for assistance recipients under arrangements that afford the assistance agency flexibility in establishing its policies and procedures. It is frequently desirable to let recipients make their own arrangements for medical services. On the other hand, there are many circumstances in which the assistance agency finds it preferable to pay the doctor or other supplier of medical care directly. People who are sick or old often need help in arranging and paying for medical services. Furthermore, care is sometimes not available unless arrangement is made in advance for payment to the doctor or hospital for the services to be supplied. The cost of the last illness of a recipient who leaves no insurance or other assets can be met only through direct payments. If the Federal Government—within specified maximums—should share one-half the payments to suppliers of medical care and one-half the money payments to recipients which exceed the maximums because of the need for medical attention, the State agency would have no financial inducement to provide medical care in one way rather than the other. Choice could be made of the best way to make medical care available to a recipient in his particular situation.

Illness and disability occur more often among recipients of public assistance than among persons in the general population. Recipients of old-age assistance have an average age of 75 years and have great need of medical services. Like other people of advanced age, they are particularly subject to chronic ailments requiring diagnosis, continuing treatment, and sometimes hospitalization or nursing care.

Evidence of the substantial need of dependent blind persons for medical care has been supplied by a study of the causes of blindness of recipients of aid to the blind. It is estimated that about one-third of the recipients are 65 years of age and over. Many of these aged, blind persons are handicapped by other infirmities as well as by blindness. About one-fifth of the recipients are blind as a result of cataract, a condition which in a substantial proportion of cases might have been corrected by surgery. More than one-tenth of the recipients suffer from glaucoma, which requires early detection and continuing medical treatment to prevent progressive and irremediable loss of vision. Medical assistance could do much to alleviate suffering and prevent or reduce visual loss among persons who are blind or in danger of becoming so.

Children on the aid to dependent children rolls, like all children, need medical services for acute illnesses, correction of defects, dentistry, and immunization against infectious diseases. To the extent



that other community programs do not provide such services, the assistance agency should be able to help children obtain them.

It would be very difficult to meet medical needs with a ceiling imposed on individual payments. When medical bills are incurred, they are often large, particularly when the recipient receives hospital or nursing-home care. We recommend, however, the control of Federal expenditures by limiting Federal contributions for medical care to one-half the amounts which average not more than \$6 per month per person receiving old-age assistance and aid to the blind, and not more than \$3 per month per person receiving aid to dependent children. Analysis of the characteristics of the case loads and of the costs of medical care indicate that adequate medical care for recipients of assistance can be provided on an average basis within these maximums. In addition to these maximums, the requirement of State financial participation in expenditures for medical care would act as a safeguard against extravagant expenditures. A further control would result from having each State set forth, in the plan which it submits to the Social Security Administration for approval, the conditions under which medical needs of recipients would be met, the scope and standards of care, the methods of payment, and the amount of compensation for such care.

The estimated additional annual cost to the Federal Government for providing medical care to recipients of old-age assistance ranges from a low of \$45,000,000 to a high of \$72,000,000. These amounts include the estimated annual cost to the Federal Government for recipients residing in public medical institutions under recommendation 4. For aid to dependent children the annual cost to the Federal Government would range from \$10,000,000 to \$15,000,000 and for aid to the blind from \$1,000,000 to \$2,000,000. Thus the estimated additional annual cost to the Federal Government under this and the following recommendation would range from \$56,000,000 to \$89,000,000. These estimates are based on March 1948 case loads, the latest month for which data are available.

#### 4. Care of the Aged in Medical Institutions

*The Federal Government should participate in payments made to or for the care of old-age-assistance recipients living in public medical institutions other than mental hospitals.<sup>6</sup> Payments in excess of the regular \$50 maximum made to recipients living in public or private institutions or made by the public-assistance agency directly to these institutions for the care of aged recipients should be included as a part of medical-care expenditures under recommendation 3, page 112. To receive Federal funds to assist aged persons in medical institutions under either public or private auspices, a State should be required to establish and maintain adequate minimum standards for the facilities and for the care of persons living in these facilities. These standards should be subject to approval by the Social Security Administration*

Many recipients of old-age assistance suffer from chronic ailments and some of these conditions require prolonged treatment in medical

<sup>6</sup> The Federal Government now shares in money payments to aged individuals living in private institutions, but it does not share in aid to persons who are living in public institutions, unless they are receiving only temporary medical care. Persons in public mental hospitals would not generally be competent to handle their own payments and are therefore excluded from this recommendation.

institutions. Private institutions and commercial nursing homes with charges within the financial reach of recipients of old-age assistance do not have sufficient capacity to provide for all recipients needing care in medical institutions. In some communities, public medical institutions could care for these aged persons if the Federal Government were to bear a share of the cost. Moreover, if Federal funds were available for this purpose, communities would be stimulated to develop additional facilities for the care of chronically ill persons and to improve the quality of care in such facilities.

Care for aged and chronically ill persons is a growing problem and in the opinion of the Council is a Federal concern. Today more than 350,000 recipients of old-age assistance are bedridden or are so infirm as to require considerable help in eating, dressing, and getting about indoors. Of them, about 50,000 are living in commercial boarding or nursing homes or private institutions. Some of these persons living in such homes or institutions are getting very unsatisfactory care. Of those living in their own homes or with others, many need prolonged treatment in medical institutions.

As the number of aged persons in the population grows, the number needing nursing-home and other services for the chronically ill will also rise. Since the passage of the original Social Security Act, the number of persons aged 65 and over has increased from about 8,000,000 to nearly 11,000,000. In another 25 years there will probably be almost twice as many aged persons in the United States as there are today.

Care of chronically ill persons in medical institutions is necessarily expensive. A needy person without some additional resources cannot obtain satisfactory care with an assistance payment limited to \$50 a month. In Connecticut in 1946, for example, the average cost of nursing-home care for the aged was \$118 a month.

We believe, therefore, that the Federal Government should participate in monthly amounts in excess of \$50 paid to old-age-assistance recipients living in medical institutions, including commercial nursing homes meeting prescribed standards, and should participate also in payments made by the State or local agency directly to such institutions for the care of aged recipients. Such expenditures should be classified as medical-care costs and should be included in the average monthly maximum recommended for medical care in recommendation 3 (p. 112). Thus the Federal Government would share in individual payments beyond the regular maximum, but total Federal expenditures for medical care, including care of aged persons living in private or public medical institutions, would be limited to a monthly average of \$6 per recipient for the program as a whole.

In writing the Social Security Act, Congress prohibited Federal participation in payments to persons living in public institutions. In so doing, it sought wisely, we believe, to discourage care of needy persons in almshouses. In many localities in the Nation, persons unable to support themselves previously had no choice but to go to the almshouse. We believe that it would be desirable to continue for the present to prohibit Federal sharing in assistance to recipients of old-age assistance in public domiciliary institutions. This recommendation therefore is limited to medical institutions. Although some States have developed public homes supplying a very high quality of care, there is still danger that in other States, Federal par-

ticipation in the cost of domiciliary care would encourage the continuance or return of the almshouse. Safeguards should be imposed by statute and by regulations of the Social Security Administration to preclude the use of the old-fashioned "poor house" for recipients of old-age assistance. Safeguards would also be needed to protect the rights of recipients to live where they choose, without pressure to live in institutions if they do not wish to do so.

At present the Social Security Act does not require States giving assistance to persons living in private institutions or nursing homes to establish any standards for the operation of such facilities. Some of the private institutions and nursing homes in which recipients are living offer a very poor quality of care and do not properly protect the health and safety of the recipients. We believe that, as a condition of eligibility for Federal funds, a State aiding needy aged persons in public and private medical institutions and commercial nursing homes should be required to have an authority or authorities that would establish and maintain adequate minimum standards for institutional facilities, and for the care of aged persons living in these facilities. The Social Security Administration should, before approving the standards established by a State, assure itself that the recipients of old-age assistance residing in private and public medical institutions and commercial nursing homes will receive adequate medical and nursing services and that their safety will be adequately protected. For institutions, both private and public, to be considered as medical institutions under this recommendation, the institutions should maintain and operate facilities for the diagnosis, treatment, or care of persons suffering from illness, injury, or deformity, and be devoted primarily to furnishing medical or nursing service.

It is estimated that the additional annual cost to the Federal Government under this recommendation would range from a low of \$20,000,000 to a high of \$32,000,000. These amounts have been included as part of the estimated cost for medical care under recommendation 3 (p. 112).

### 5. Residence Requirements

*Federal funds should not be available for any public assistance program in which the State imposes residence requirements as a condition of eligibility for assistance, except that States should be allowed to impose a 1-year residence requirement for old-age assistance*<sup>7</sup>

The Social Security Act provides that a State plan for old-age assistance or aid to the blind may not require, as a condition of eligibility, residence in a State for more than 5 of the 9 years immediately preceding application and 1 continuous year before filing the application. For aid to dependent children, the maximum requirement for the child is 1 year of residence immediately preceding application, or, if the child is less than a year old, birth in the State and continuous residence by the mother in the State for 1 year preceding the birth.

In old-age assistance, of the 51 jurisdictions with federally approved plans, 27 have a 5-year residence requirement. Three States require residence within the State for 3 years, 1 for 2 years, and 16 for 1 year.

<sup>7</sup> One member of the Council felt that States should be allowed to impose up to a 5-year-residence requirement in the old-age-assistance program.



Four States (Kentucky, New York, Rhode Island, and Utah) have no residence requirement imposed by statute or regulation.

In aid to the blind, of the 47 jurisdictions receiving Federal funds, 21 have a 5-year requirement; 2 require 3 years; 2 require 2 years; 17 require 1 year; and 5 have no requirement. The five States with no requirement are Mississippi and the four listed above as having no residence requirement for old-age assistance. Many other States waive the residence requirement in aid to the blind for applicants who become blind while residing in the State.

In aid to dependent children, of the 50 jurisdictions with approved plans, 8 States have no residence requirement: Alabama, Georgia, Kentucky, Mississippi, New York, Rhode Island, Wisconsin, and Utah. The others have a 1-year requirement. (See appendix III-A, table 15.)

In general assistance, which is financed solely from State and local funds, there is of course no Federal requirement and practice varies widely. Legal settlement in the community as well as State residence is often required. The settlement requirement not only makes it necessary for the applicant to have resided in the community for a specified period of time, but may require him and all members of his family to have been self-supporting, or at least not to have been dependent on public funds for support during any part of such time. In communities with such a rule, the receipt of any amount of public aid during a qualifying period prevents the recipient and his family from gaining legal settlement and thereby from becoming eligible for continuing assistance.

Under one State law, if the local public assistance office believes that a newcomer to a community may not retain his job and may need assistance, he may receive a "notice to depart." Such notices disqualify the person for general assistance for 2 years, and the notice is subject to renewal.

Residence and settlement laws result in unwarranted hardship for needy persons, not only because these laws are sometimes invoked by welfare administrators for the purpose of "shipping back" needy persons to the communities where they "belong," but also because persons often lose their residence and settlement in the State in which they once had such status before they can acquire it in another. They "belong" nowhere under the statutes of the respective States.

In our society, mobility of population is essential. Individuals should be free to move where jobs are available and if, as a result of illness or other misfortune, they become needy, they should not be denied assistance because they have crossed State or county lines. We believe that residence and settlement provisions are socially unjustifiable.

In the programs for aid to dependent children and aid to the blind, immediate steps should be taken to require the States to abolish residence requirements. Elsewhere in this report we have recommended that the Federal Government participate in the costs of a State-Federal general assistance program to aid those persons to whom no other means of support is available. We believe that it is essential, if such a program is to fulfill its purpose, that the States be prohibited from imposing any residence or other artificial barriers to eligibility for general assistance.



We recognize, however, that the States into which older persons move because of favorable climate and which have relatively adequate assistance for the aged, fear increased financial liability if residence requirements should be eliminated entirely for old-age assistance. Therefore, we have recommended that the States be authorized to impose, if they desire, a residence requirement of not more than 1 year for old-age assistance.

## 6. Study of Child Health and Welfare Services

*A commission should be appointed to study current child health and welfare needs and to review the programs operating under title V of the Social Security Act relating to maternal and child health services, services for crippled children, and child welfare services. The commission should make recommendations as to the proper scope of these services and the responsibilities that should be assumed by the Federal and State Governments, respectively*

More fully to meet the needs of children in two important areas, the Council has recommended increased insurance protection for children under old-age and survivors insurance and has recommended also that the Federal share in payments for aid to dependent children be made comparable to that in payments to needy aged and needy blind persons.

In addition, the Council received information on further needs of children which, the Council believes, would require direct health and welfare services rather than the cash payments with which it has been primarily concerned. Accordingly, the Council recommends appointment of a special commission which should include specialists in child health and welfare services to appraise currently unmet needs of children and to determine how these needs may best be met. Consideration should be given to such questions as: What constitute the essential features of an adequate maternal and child health program and an adequate child welfare program? Should necessary health and welfare services be provided to all children and mothers or should they be limited to those whose families cannot afford to pay for the services? Is the present scope of maternal and child health and welfare services sufficiently broad or should new services be instituted? Should new or expanded services be supplied by governmental agencies, by voluntary agencies, or by both acting together?

According to information supplied to the Council by the Children's Bureau, many children are now in great need of health and welfare services for whom such services are not available or are wholly inadequate. Among the health needs which that Bureau feels are most urgent are those arising from—

- (1) Inadequate health services for both mothers and children; these services are lacking in many areas, particularly in rural communities.

- (2) Rheumatic fever; some 500,000 children are suffering from rheumatic fever.

- (3) Premature birth; some 150,000 infants are born prematurely each year.

- (4) Lack of dental care; some 20,000,000 children are in urgent need of dental attention.

(5) Cerebral palsy; between 100,000 and 160,000 children have cerebral palsy.

(6) Physical and mental defects; many children of school age lack provision for medical examinations and for the correction of handicapping conditions found.

(7) Inadequate supply of professional personnel; nearly all parts of the United States lack a sufficient number of pediatricians, public-health nurses, and medical social workers to provide adequate health services for children.

Among the welfare services which the Bureau feels are most urgent are those arising from the lack of—

(1) Adequate boarding home care for children in need of such care—60,000 children are now receiving care in boarding homes under public auspices, and many communities have insufficient funds to provide adequate care.

(2) Proper detention or temporary shelter care for children—some 300,000 children annually receive detention care, a large proportion under very unfavorable circumstances.

(3) Facilities and services for the day care of children of working mothers; approximately 2,000,000 women with children under 10 years of age were in the labor force in February 1946.

(4) A sufficient number of child welfare workers and other qualified personnel in many parts of the country, particularly rural areas.

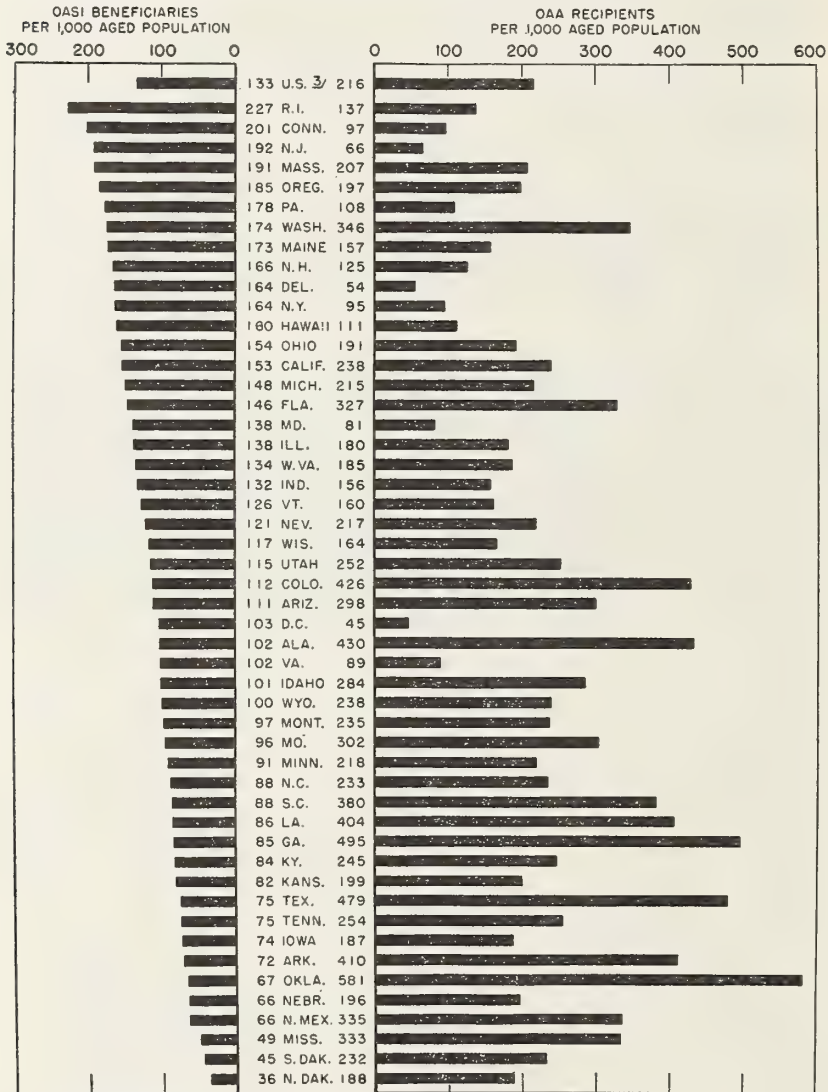
Unmet health and welfare needs among children are of the gravest consequences to the Nation. Such needs, if ignored too long, may necessitate more expensive and less effective treatment later. If child health and welfare services meet these needs promptly and constructively, however, incalculable gains in physical strength and efficiency, in personal adjustment, family solidarity, vocational aptitude, and more satisfying and useful lives can be realized. The Council believes that, after extended inquiry, a commission such as that suggested here would be able to formulate farseeing plans on which may be built a sound long-range program for the Nation's children.

## APPENDIXES—PUBLIC ASSISTANCE

### APPENDIX III—A. STATISTICS RELATED TO PUBLIC ASSISTANCE

CHART 1

NUMBER OF AGED PERSONS RECEIVING BENEFITS UNDER OLD-AGE AND SURVIVORS INSURANCE<sup>1</sup> AND NUMBER RECEIVING OLD-AGE ASSISTANCE PER 1,000 PERSONS AGED 65 YEARS AND OVER, BY STATE,<sup>2</sup> JUNE 1948

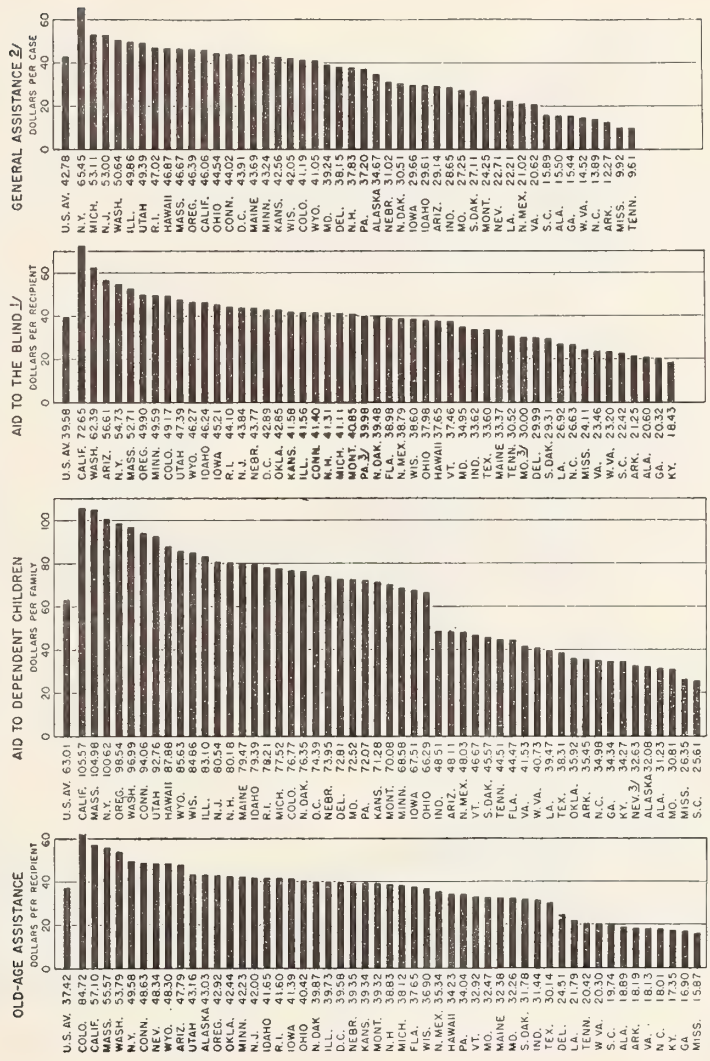


<sup>1</sup> Primary, wife's, widow's, and parent's benefits in current-payment status at end of June.

<sup>2</sup> Aged population as of July 1, 1948, estimated by Social Security Administration.

<sup>3</sup> Includes Hawaii.

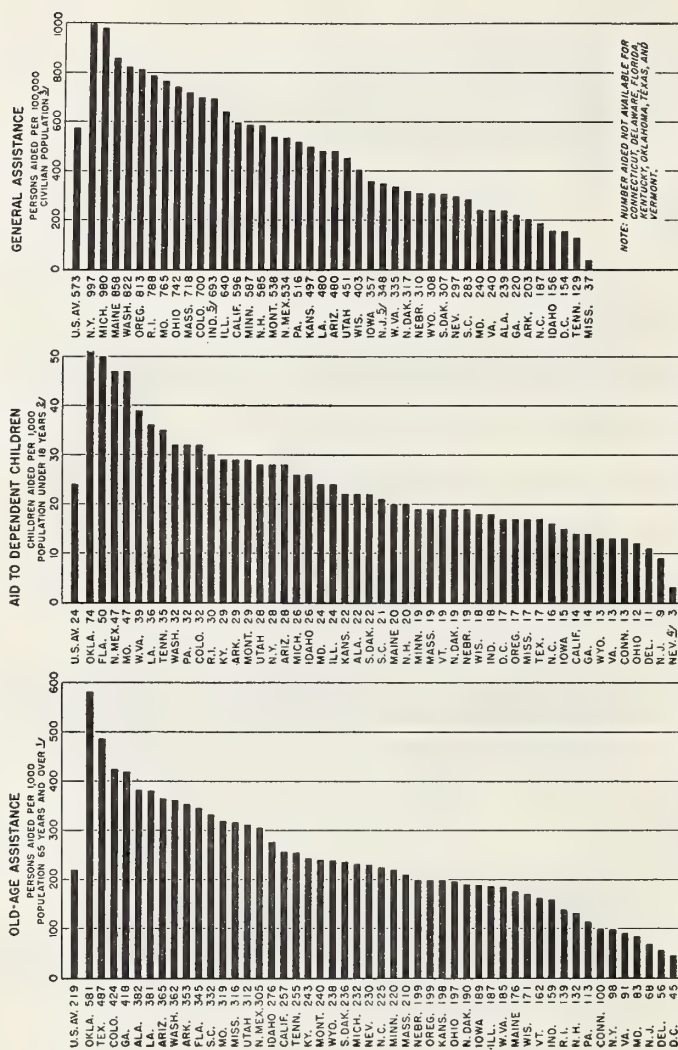
CHART 2  
PUBLIC ASSISTANCE: AVERAGE MONTHLY PAYMENT, DECEMBER 1947



U. ALASKA HAS NO PROGRAM; NOT COMPUTED FOR NEVADA (LESS THAN 50 RECIPIENTS).  
2. NOT COMPUTED FOR FLA., KY., TEX., OR VT. (DATA ESTIMATED) OR FOR OKLA. (COMPLETE DATA NOT AVAILABLE).



CHART 3  
PUBLIC ASSISTANCE: RECIPIENT RATES IN CONTINENTAL U.S., DECEMBER 1947



<sup>1</sup> POPULATION AGED 65 AND OVER AS OF APRIL 1947 ESTIMATED BY SSA. RATE IS UNDERSTATEMENT FOR SOME STATES AS ONLY ONE RECIPIENT IS REPORTED WHEN SINGLE PAYMENT IS MADE TO [HUSBAND AND WIFE, BOTH 65 AND OVER.  
<sup>2</sup> POPULATION UNDER 18 AS OF APRIL 1947 ESTIMATED BY SSA. <sup>3</sup> CIVILIAN POPULATION AS OF JULY 1946 ESTIMATED BY CENSUS BUREAU.  
<sup>4</sup> NO FEDERAL PARTICIPATION. <sup>5</sup> INCLUDES UNKNOWN NUMBER RECEIVING MEDICAL CARE, HOSPITALIZATION, AND BURIAL ONLY.

TABLE 1.—*Estimated percentage of persons aged 65 and over in the population of various future years who will be fully insured under old-age and survivors insurance if high employment conditions prevail*

Calendar year	Complete extension of coverage		Present coverage	
	Men	Women	Men	Women
1955.....	57-66	10-13	39-44	6-7
1960.....	69-81	13-17	44-49	7-10
1970.....	76-86	17-25	54-62	10-14
1980.....	81-91	23-31	64-73	16-22
1990.....	84-94	33-40	72-81	27-34
2000.....	86-95	43-51	74-84	35-43

TABLE 2.—*Special types of public assistance and general assistance: Expenditures for assistance to recipients, by program and source of funds, calendar year ended Dec. 31, 1947*<sup>1</sup>

Program	Expenditures from--			
	Total	Federal funds	State funds	Local funds
Amount (in thousands)				
Total.....	\$1,480,775	\$650,310	\$672,986	\$157,479
Special types of public assistance:				
Old-age assistance.....	986,470	520,202	410,616	55,652
Aid to dependent children.....	294,038	115,740	142,924	35,374
Aid to the blind.....	36,198	14,368	19,048	2,783
General assistance.....	164,068	-----	100,398	63,670
Percentage distribution by program				
Total.....	100.0	100.0	100.0	100.0
Special types of public assistance:				
Old-age assistance.....	66.6	80.0	61.0	35.3
Aid to dependent children.....	19.9	17.8	21.2	22.5
Aid to the blind.....	2.4	2.2	2.8	1.8
General assistance.....	11.1	-----	14.9	40.4
Percentage distribution by source of funds				
Total.....	100.0	43.9	45.4	10.6
Special types of public assistance:				
Old-age assistance.....	100.0	52.7	41.6	5.6
Aid to dependent children.....	100.0	39.4	48.6	12.0
Aid to the blind.....	100.0	39.7	52.6	7.7
General assistance.....	100.0	-----	61.2	38.8

<sup>1</sup> For detail by program see tables 3, 4, 5, and 6 of this appendix. For aid to dependent children and aid to the blind data include programs administered under State laws without Federal participation.

TABLE 3.—*Old-age assistance: Expenditures for assistance to recipients, by source of funds and State, calendar year ended Dec. 31, 1947*<sup>1</sup>

[Amounts in thousands]

State	Total	Federal funds		State funds		Local funds	
		Amount	Percent	Amount	Percent	Amount	Percent
Total, 51 States under plans approved by the Social Security Administration.....	\$986, 470	\$520, 202	52. 7	\$410, 616	41. 6	\$55, 652	5. 6
Alabama.....	11, 416	7, 286	63. 8	2, 092	18. 3	2, 038	17. 9
Alaska.....	679	345	50. 8	334	49. 2	.....	.....
Arizona.....	6, 104	3, 108	50. 9	2, 996	49. 1	.....	.....
Arkansas.....	8, 764	5, 571	63. 6	3, 193	36. 4	.....	.....
California.....	113, 271	50, 836	44. 9	52, 690	46. 5	9, 745	8. 6
Colorado.....	31, 560	12, 010	38. 1	19, 550	61. 9	.....	.....
Connecticut.....	7, 601	3, 681	48. 4	3, 921	51. 6	.....	.....
Delaware.....	332	202	61. 0	129	39. 0	.....	.....
District of Columbia.....	1, 087	574	52. 8	513	47. 2	.....	.....
Florida.....	23, 197	13, 169	56. 8	10, 027	43. 2	.....	.....
Georgia.....	15, 396	9, 974	64. 8	4, 653	30. 2	770	5. 0
Hawaii.....	702	382	54. 4	320	45. 6	.....	.....
Idaho.....	5, 177	2, 659	51. 4	2, 517	48. 6	.....	.....
Illinois.....	59, 973	31, 876	53. 2	28, 097	46. 8	.....	.....
Indiana.....	18, 998	11, 043	58. 1	4, 773	25. 1	3, 182	16. 7
Iowa.....	22, 819	12, 141	53. 2	10, 677	46. 8	.....	.....
Kansas.....	15, 061	8, 036	53. 4	4, 597	30. 5	2, 428	16. 1
Kentucky.....	9, 929	6, 395	64. 4	3, 534	35. 6	.....	.....
Louisiana.....	13, 397	8, 101	60. 5	5, 296	39. 5	.....	.....
Maine.....	6, 036	3, 467	57. 4	2, 569	42. 6	.....	.....
Maryland.....	4, 406	2, 539	57. 6	1, 133	25. 7	734	16. 7
Massachusetts.....	53, 005	23, 565	44. 5	21, 053	39. 7	8, 387	15. 8
Michigan.....	40, 485	22, 802	56. 3	17, 683	43. 7	.....	.....
Minnesota.....	25, 669	13, 379	52. 1	7, 835	30. 5	4, 456	17. 4
Mississippi.....	7, 988	5, 172	64. 7	2, 816	35. 3	.....	.....
Missouri.....	45, 375	26, 066	57. 4	19, 310	42. 6	.....	.....
Montana.....	4, 878	2, 759	56. 6	1, 415	29. 0	704	14. 4
Nebraska.....	11, 659	6, 195	53. 1	5, 464	46. 9	.....	.....
Nevada.....	1, 158	596	51. 4	281	24. 3	281	24. 3
New Hampshire.....	2, 942	1, 616	54. 9	590	20. 1	736	25. 0
New Jersey.....	11, 145	5, 791	52. 0	4, 016	36. 0	1, 339	12. 0
New Mexico.....	3, 407	1, 857	54. 5	1, 550	45. 5	.....	.....
New York.....	61, 926	28, 716	46. 4	20, 892	33. 7	12, 319	19. 9
North Carolina.....	8, 349	5, 356	64. 1	1, 532	18. 4	1, 461	17. 5
North Dakota.....	4, 143	2, 119	51. 1	1, 726	41. 7	298	7. 2
Ohio.....	57, 230	30, 941	54. 1	26, 289	45. 9	.....	.....
Oklahoma.....	47, 949	26, 798	55. 9	21, 151	44. 1	.....	.....
Oregon.....	11, 140	5, 639	50. 6	3, 626	32. 6	1, 874	16. 8
Pennsylvania.....	36, 711	20, 774	56. 6	15, 937	43. 4	.....	.....
Rhode Island.....	4, 022	2, 050	51. 0	1, 972	49. 0	.....	.....
South Carolina.....	7, 118	4, 448	62. 5	2, 669	37. 5	.....	.....
South Dakota.....	4, 826	2, 788	57. 8	2, 039	42. 2	.....	.....
Tennessee.....	11, 086	6, 956	62. 7	3, 211	29. 0	918	8. 3
Texas.....	67, 821	39, 732	58. 6	28, 090	41. 4	.....	.....
Utah.....	6, 372	3, 277	51. 4	2, 580	40. 5	515	8. 1
Vermont.....	2, 132	1, 235	57. 9	897	42. 1	.....	.....
Virginia.....	3, 342	2, 149	64. 3	746	22. 3	447	13. 4
Washington.....	41, 544	18, 460	44. 4	23, 084	55. 6	.....	.....
West Virginia.....	4, 705	2, 975	63. 2	1, 730	36. 8	.....	.....
Wisconsin.....	20, 233	11, 521	56. 9	6, 111	30. 2	2, 600	12. 9
Wyoming.....	2, 206	1, 076	48. 8	709	32. 1	421	19. 1

<sup>1</sup> For definitions of terms, see the Social Security Bulletin, January 1948, pp. 24-26. Amounts cannot be compared with annual data based on monthly series, or with amount of Federal grants to the States.

TABLE 4.—*Aid to the blind: Expenditures for assistance to recipients, by source of funds and State, calendar year ended Dec. 31, 1947*<sup>1</sup>

[Amount in thousands]

State	Total	Federal funds		State funds		Local funds	
		Amount	Percent	Amount	Percent	Amount	Percent
Total, 50 States	\$36, 198	\$14, 368	39. 7	\$19, 048	52. 6	\$2, 783	7. 7
Total, 47 States under plans approved by the Social Security Administration	28, 367	14, 368	50. 6	11, 224	39. 6	2, 775	9. 8
Alabama	241	150	62. 5	45	18. 7	45	18. 8
Arizona	430	186	43. 2	244	56. 8		
Arkansas	373	230	61. 7	143	38. 3		
California	5, 017	1, 797	35. 8	1, 874	37. 4	1, 346	26. 8
Colorado	207	106	51. 1	49	23. 9	52	25. 0
Connecticut	63	32	50. 8	31	49. 2		
Delaware	40	23	58. 7	16	41. 3		
District of Columbia	107	55	51. 3	52	48. 7		
Florida	1, 211	684	56. 5	527	43. 5		
Georgia	533	332	62. 3	174	32. 7	27	5. 0
Hawaii	31	16	51. 3	15	48. 7		
Idaho	116	54	46. 7	62	53. 3		
Illinois	2, 340	1, 235	52. 8	1, 105	47. 2		
Indiana	744	429	57. 6	316	42. 4		
Iowa	659	316	48. 0	178	27. 0	165	25. 0
Kansas	507	258	50. 9	155	30. 5	94	18. 6
Kentucky	378	240	63. 6	138	36. 4		
Louisiana	507	292	57. 7	215	42. 3		
Maine	296	170	57. 4	126	42. 6		
Maryland	190	109	57. 2	15	7. 8	67	35. 0
Massachusetts	723	324	44. 9	398	55. 1		
Michigan	686	383	55. 8	303	44. 2		
Minnesota	542	259	47. 7	284	52. 3		
Mississippi	583	353	60. 5	231	39. 5		
Missouri	1, 042			1, 042	100. 0		
Montana	192	108	56. 2	58	30. 5	26	13. 3
Nebraska	227	119	52. 3	108	47. 7		
Nevada	14			7	47. 0	7	53. 0
New Hampshire	135	73	53. 8	63	46. 2		
New Jersey	301	156	51. 9	0	2. 9	136	45. 3
New Mexico	153	80	52. 4	73	47. 6		
New York	2, 133	916	42. 9	795	37. 3	422	19. 8
North Carolina	884	527	59. 7	178	20. 2	178	20. 2
North Dakota	58	30	51. 4	28	48. 6		
Ohio	1, 404	790	56. 2	614	43. 8		
Oklahoma	1, 251	698	55. 8	553	44. 2		
Oregon	228	103	45. 3	82	36. 0	43	18. 7
Pennsylvania	6, 776			6, 776	100. 0		
Rhode Island	67	33	48. 4	35	51. 6		
South Carolina	330	201	60. 9	129	39. 1		
South Dakota	76	44	58. 4	31	41. 6		
Tennessee	556	330	59. 3	176	31. 7	50	8. 9
Texas	2, 047	1, 183	57. 8	864	42. 2		
Utah	83	39	46. 7	38	45. 4	7	7. 9
Vermont	77	44	56. 8	33	43. 2		
Virginia	304	186	61. 1	74	24. 3	44	14. 6
Washington	480	187	38. 9	293	61. 1		
West Virginia	226	139	61. 4	87	38. 6		
Wisconsin	562	318	56. 6	170	30. 3	74	13. 2
Wyoming	65	31	47. 2	34	52. 8		

<sup>1</sup> For definitions of terms, see the Social Security Bulletin, January 1948, pp. 24-26. Amounts cannot be compared with annual data based on monthly series, or with amount of Federal grants to the States. Italicized figures represent programs administered under State laws from State and/or local funds without Federal participation. Data exclude program administered without Federal participation in Connecticut, which administers such program concurrently with program under the Social Security Act. Alaska does not administer aid to the blind.



TABLE 5.—*Aid to dependent children: Expenditures for assistance to recipients, by source of funds and State, calendar year ended Dec. 31, 1947*<sup>1</sup>

[Amounts in thousands]

State	Total	Federal funds		State funds		Local funds	
		Amount	Percent	Amount	Percent	Amount	Percent
Total, 51 States.....	\$294, 038	\$115, 740	39. 4	\$142, 924	48. 6	\$35, 374	12. 0
Total, 50 States under plans approved by the Social Security Administration.....	294, 020	115, 740	39. 4	142, 924	48. 6	35, 356	12. 0
Alabama.....	3, 099	1, 960	63. 2	565	18. 2	574	18. 5
Alaska.....	100	58	57. 7	42	42. 3	—	—
Arizona.....	1, 371	806	58. 8	565	41. 2	—	—
Arkansas.....	2, 951	1, 799	61. 0	1, 152	39. 0	—	—
California.....	13, 382	3, 401	25. 4	5, 035	37. 6	4, 946	37. 0
Colorado.....	3, 491	1, 354	38. 8	1, 264	36. 2	873	25. 0
Connecticut.....	2, 906	829	28. 5	1, 205	41. 5	872	30. 0
Delaware.....	245	94	38. 2	76	30. 9	76	30. 9
District of Columbia.....	1, 117	438	39. 3	679	60. 7	—	—
Florida.....	5, 384	3, 151	58. 5	2, 233	41. 5	—	—
Georgia.....	2, 664	1, 625	61. 0	906	34. 0	133	5. 0
Hawaii.....	1, 080	357	33. 1	723	66. 9	—	—
Idaho.....	1, 618	552	34. 1	1, 066	65. 9	—	—
Illinois.....	21, 755	6, 930	31. 9	14, 826	68. 1	—	—
Indiana.....	3, 981	2, 201	55. 3	1, 068	26. 8	712	17. 9
Iowa.....	2, 342	1, 122	47. 9	612	26. 1	608	26. 0
Kansas.....	4, 020	1, 447	36. 0	1, 234	30. 7	1, 339	33. 3
Kentucky.....	4, 181	2, 528	60. 5	1, 653	39. 5	—	—
Louisiana.....	6, 019	3, 262	54. 2	2, 758	45. 8	—	—
Maine.....	1, 897	664	35. 0	810	42. 7	423	22. 3
Maryland.....	3, 561	1, 687	47. 4	1, 588	44. 6	286	8. 0
Massachusetts.....	10, 812	2, 853	26. 4	3, 604	33. 3	4, 355	40. 3
Michigan.....	18, 414	5, 977	32. 5	11, 669	63. 4	769	4. 2
Minnesota.....	4, 406	1, 891	42. 9	1, 257	28. 5	1, 258	28. 5
Mississippi.....	1, 659	1, 040	62. 7	619	37. 3	—	—
Missouri.....	7, 579	4, 703	62. 1	2, 876	37. 9	—	—
Montana.....	1, 338	533	39. 8	516	38. 5	290	21. 7
Nebraska.....	2, 860	928	32. 4	1, 865	65. 2	67	2. 4
Nevada.....	19	—	—	—	—	19	100. 0
New Hampshire.....	1, 031	342	33. 2	689	66. 8	—	—
New Jersey.....	3, 794	1, 279	33. 7	1, 165	30. 7	1, 351	35. 6
New Mexico.....	2, 090	1, 061	50. 8	1, 029	49. 2	—	—
New York.....	47, 786	11, 991	25. 1	26, 530	55. 5	9, 265	19. 4
North Carolina.....	3, 206	1, 996	62. 3	619	19. 3	591	18. 4
North Dakota.....	1, 424	522	36. 6	486	34. 1	416	29. 2
Ohio.....	7, 344	3, 567	48. 6	1, 840	25. 1	1, 937	26. 4
Oklahoma.....	13, 895	8, 097	58. 3	5, 798	41. 7	—	—
Oregon.....	2, 431	717	29. 5	1, 134	46. 7	579	23. 8
Pennsylvania.....	33, 302	12, 385	37. 2	20, 917	62. 8	—	—
Rhode Island.....	2, 222	739	33. 3	1, 483	66. 7	—	—
South Carolina.....	1, 755	1, 154	65. 8	601	34. 2	—	—
South Dakota.....	1, 007	559	55. 5	448	44. 5	—	—
Tennessee.....	6, 549	3, 927	60. 0	1, 957	29. 9	665	10. 2
Texas.....	6, 522	3, 897	59. 8	2, 625	40. 2	—	—
Utah.....	2, 777	794	28. 6	1, 769	63. 7	213	7. 7
Vermont.....	381	224	58. 9	109	28. 6	48	12. 5
Virginia.....	2, 117	1, 199	56. 6	674	31. 8	345	16. 3
Washington.....	8, 718	2, 193	25. 2	6, 525	74. 8	—	—
West Virginia.....	4, 319	2, 635	61. 0	1, 685	39. 0	—	—
Wisconsin.....	6, 722	2, 140	31. 8	2, 310	34. 4	2, 272	33. 8
Wyoming.....	395	135	34. 1	167	42. 3	93	23. 6

<sup>1</sup> For definitions of terms see the Social Security Bulletin, January 1948, pp. 24-26. Amounts cannot be compared with annual data based on monthly series, or with amount of Federal grants to the States. Italicized figures represent program administered under State law from local funds without Federal participation. Data exclude programs administered without Federal participation in Florida, Kentucky, and Nebraska, which administer such programs concurrently with programs under the Social Security Act.

<sup>2</sup> State-local distribution partly estimated.

TABLE 6.—General assistance: Expenditures for assistance to cases, by source of funds and State, calendar year ended Dec. 31, 1947<sup>1</sup>

(Amounts in thousands)

State	Total	State funds		Local funds	
		Amount	Percent	Amount	Percent
Total, 51 States.....	\$164,068	\$100,398	61.2	\$63,670	38.8
Alabama.....	941	459	48.7	482	51.3
Alaska.....	53	53	100.0		
Arizona.....	749	749	100.0		
Arkansas.....	<sup>2</sup> 388	388	100.0	( <sup>2</sup> )	( <sup>2</sup> )
California.....	13,280			13,280	100.0
Colorado.....	1,858	861	46.4	996	53.6
Connecticut <sup>3</sup> .....	1,659	691	41.6	968	58.4
Delaware.....	332	<sup>3</sup> 166	50.0	<sup>3</sup> 166	50.0
District of Columbia.....	652	652	100.0		
Florida.....	<sup>3</sup> 768			768	100.0
Georgia.....	533			533	100.0
Hawaii.....	485	485	100.0		
Idaho.....	240			240	100.0
Illinois.....	12,332	6,815	55.3	5,518	44.7
Indiana.....	1,692			1,692	100.0
Iowa.....	1,317			1,317	100.0
Kansas.....	2,395	900	37.6	1,495	62.4
Kentucky.....	<sup>3</sup> 372			372	100.0
Louisiana.....	<sup>2</sup> 2,217	1,763	79.5	<sup>2</sup> 454	20.5
Maine.....	1,135	373	32.9	762	67.1
Maryland.....	2,627	1,340	51.0	1,288	49.0
Massachusetts.....	7,588	1,655	21.8	5,932	78.2
Michigan.....	11,278	5,805	51.5	5,473	48.5
Minnesota.....	2,820	649	23.0	2,171	77.0
Mississippi.....	56			56	100.0
Missouri.....	<sup>3</sup> 3,488	3,443	98.7	<sup>2</sup> 46	1.3
Montana.....	407	68	16.7	339	83.3
Nebraska.....	542			542	100.0
Nevada.....	69			69	100.0
New Hampshire.....	463			463	100.0
New Jersey.....	3,071	<sup>3</sup> 1,136	37.0	<sup>3</sup> 1,935	63.0
New Mexico.....	<sup>2</sup> 459	450	98.0	<sup>2</sup> 9	2.0
New York.....	46,020	37,249	80.9	8,771	19.1
North Carolina.....	493			493	100.0
North Dakota.....	263	51	19.6	212	80.4
Ohio.....	9,444	9,442	100.0	2	( <sup>4</sup> )
Oklahoma.....	784	450	57.4	334	42.6
Oregon.....	2,922	2,457	84.1	465	15.9
Pennsylvania.....	14,085	14,085	100.0		
Rhode Island.....	1,414	990	70.0	424	30.0
South Carolina.....	690	693	89.9	67	10.1
South Dakota.....	241			241	100.0
Tennessee.....	175			175	100.0
Texas.....	<sup>3</sup> 772			772	100.0
Utah.....	1,066	980	91.9	86	8.1
Vermont <sup>3</sup> .....	199	3	1.4	196	98.6
Virginia.....	854	500	58.5	354	41.5
Washington.....	5,255	<sup>3</sup> 4,194	79.8	<sup>3</sup> 1,061	20.2
West Virginia.....	753	258	34.3	495	65.7
Wisconsin.....	2,188	61	2.8	2,127	97.2
Wyoming.....	226	187	82.6	39	17.4

<sup>1</sup> For definitions of terms, see the Social Security Bulletin, January 1948, pp. 24-26. Amounts cannot be compared with annual data based on monthly series.

<sup>2</sup> For Arkansas, data on expenditures from local funds not available; for Louisiana, Missouri, and New Mexico data on expenditures from local funds incomplete.

<sup>3</sup> Estimated.

<sup>4</sup> Less than 0.05 percent.

TABLE 7.—Old-age assistance: Distribution of payments to recipients, October 1947

State	Number of pay-ments	Percent receiving—										
		Less than \$10	\$10 to \$19.99	\$20 to \$29.99	\$30 to \$39.99	\$40 to \$49.99	\$50 to \$59.99	\$60 to \$69.99	\$70 to \$79.99	\$80 to \$89.99	\$90 to \$99.99	\$100 or more
Total.....	2,317,193	1.7	15.0	18.8	20.9	24.1	8.3	9.3	0.9	0.4	0.2	0.3
Alabama.....	60,138	4.2	61.2	25.9	6.1	2.3	.3	(1)	(1)	(1)	—	(1)
Alaska.....	1,362	.1	4.6	10.9	19.6	28.6	23.9	12.4	—	—	—	—
Arizona.....	10,601	.1	.4	1.2	5.0	14.5	78.8	—	—	—	—	—
Arkansas <sup>1</sup> .....	42,694	5.1	60.2	26.9	6.7	1.1	—	—	—	—	—	—
California.....	178,071	.1	.2	1.3	3.1	5.0	18.7	71.5	—	—	—	—
Colorado.....	43,627	.1	.3	.5	1.2	3.5	8.0	86.4	—	—	—	—
Connecticut.....	15,306	.5	3.8	10.4	18.4	59.0	.6	.2	.1	.2	.4	6.4
Delaware.....	1,260	5.0	25.5	40.6	22.0	7.0	—	—	—	—	—	—
District of Columbia.....	2,241	.1	5.5	16.8	27.8	30.8	13.8	3.7	1.0	.5	—	(1)
Florida.....	55,144	.4	2.4	16.6	33.3	47.2	—	—	—	—	—	—
Georgia.....	77,160	12.1	60.2	20.0	5.6	2.1	—	—	—	—	—	—
Hawaii.....	1,827	1.9	10.1	20.9	44.3	13.4	4.8	2.3	1.3	.4	.3	.3
Idaho.....	10,476	.3	2.8	15.1	28.2	30.4	13.4	5.5	3.3	.7	.2	.1
Illinois.....	126,475	.8	2.4	15.0	31.3	28.5	18.3	1.7	1.6	.2	.1	.1
Indiana.....	50,731	1.2	8.9	34.6	33.0	22.0	.2	.1	(1)	(1)	(1)	(1)
Iowa.....	48,391	.5	2.2	11.0	38.9	30.9	10.8	3.0	1.2	(1)	.6	.2
Kansas.....	34,734	.5	3.4	19.9	32.5	27.0	9.5	4.4	1.7	.6	.2	.3
Kentucky.....	50,182	3.5	70.7	24.4	1.4	—	—	—	—	—	—	—
Louisiana.....	51,986	6.3	45.3	31.8	11.5	3.6	1.0	.3	.1	(1)	(1)	—
Maine.....	14,691	1.2	5.2	25.4	33.1	35.1	—	—	—	—	—	—
Maryland.....	11,859	2.1	14.9	29.6	28.2	22.4	.7	1.5	.1	.1	.2	(1)
Massachusetts.....	86,890	.6	2.1	5.4	14.7	25.4	20.7	16.3	6.8	3.1	1.7	3.2
Michigan.....	93,124	.8	3.3	15.1	27.4	50.7	.1	2.6	—	—	—	—
Minnesota.....	54,572	.9	2.2	12.9	32.3	33.3	16.9	.7	.3	.2	.1	.2
Mississippi.....	40,392	5.0	71.9	18.6	4.6	—	—	—	—	—	—	—
Missouri.....	115,208	.8	7.2	29.0	32.8	30.2	—	—	—	—	—	—
Montana.....	10,728	(1)	2.2	9.9	26.6	61.2	—	—	—	—	—	—
Nebraska.....	24,896	.5	2.0	17.2	39.1	25.2	16.0	—	—	—	—	—
Nevada.....	2,094	(1)	(1)	.5	4.0	20.4	75.0	—	—	—	—	—
New Hampshire.....	6,817	.7	5.8	17.5	27.8	40.9	1.5	2.3	1.2	1.8	.3	.2
New Jersey.....	23,329	.3	3.3	13.2	29.5	34.3	12.4	2.7	1.0	.6	1.3	1.3
New Mexico.....	8,317	—	5.6	29.9	31.9	17.1	13.0	2.5	—	—	—	—
New York.....	110,369	.6	2.9	11.4	18.1	24.0	18.8	13.6	6.3	2.0	.8	1.6
North Carolina.....	41,213	3.6	64.1	23.5	6.3	2.5	—	—	—	—	—	—
North Dakota.....	8,890	.7	3.4	22.2	38.3	21.7	7.2	3.2	1.1	.5	.3	1.5
Ohio.....	122,660	.4	1.8	12.3	30.7	33.3	21.5	(1)	(1)	(1)	(1)	.1
Oklahoma.....	96,867	.1	.7	2.2	15.2	81.9	—	—	—	—	—	—
Oregon.....	21,905	.3	3.3	12.4	31.7	27.3	13.1	5.4	3.0	1.4	1.4	.6
Pennsylvania.....	90,179	1.4	7.6	25.3	32.1	30.6	1.8	1.2	.1	(1)	(1)	(1)
Rhode Island.....	8,714	1.1	7.0	17.3	22.3	23.2	18.5	5.6	2.3	.8	.5	1.2
South Carolina.....	31,518	2.0	33.6	64.3	—	—	—	—	—	—	—	—
South Dakota.....	12,329	1.3	6.5	31.2	40.9	20.2	—	—	—	—	—	—
Tennessee.....	49,361	3.1	55.1	28.5	9.5	3.9	—	—	—	—	—	—
Texas.....	197,924	.5	8.1	41.9	33.9	15.6	—	—	—	—	—	—
Utah.....	11,459	.3	1.9	5.8	22.3	57.9	4.5	1.7	2.5	2.2	.8	.1
Vermont.....	5,802	1.4	6.9	20.3	34.0	37.3	—	—	—	—	—	—
Virginia.....	16,299	17.3	47.3	21.7	8.9	4.8	—	—	—	—	—	—
Washington.....	63,576	.7	1.8	3.7	6.7	31.3	30.4	11.9	5.0	4.3	2.3	2.0
West Virginia.....	21,679	1.4	53.7	32.2	9.4	3.3	—	—	—	—	—	—
Wisconsin.....	47,307	.6	3.2	18.3	31.6	46.3	—	—	—	—	—	—
Wyoming.....	3,819	.1	2.4	3.1	10.2	33.7	29.7	20.8	—	—	—	—

<sup>1</sup> Less than 0.05 percent.<sup>2</sup> Data for September 1947.

TABLE 8.—*Aid to the blind: Distribution of payments to recipients, October 1947*

State	Number of pay- ments	Percent receiving—										
		Less than \$10	\$10 to \$19.99	\$20 to \$29.99	\$30 to \$39.99	\$40 to \$49.99	\$50 to \$59.99	\$60 to \$69.99	\$70 to \$79.99	\$80 to \$89.99	\$90 to \$99.99	\$100 or more
Total.....	63, 277	0.8	12.3	20.0	19.8	24.5	6.7	3.7	10.9	0.7	0.3	0.4
Alabama.....	1, 060	1.0	56.4	29.7	8.8	4.1	—	—	—	—	—	—
Arizona.....	641	.2	—	.5	4.2	9.7	8.4	77.1	—	—	—	—
Arkansas <sup>1</sup> .....	1, 516	2.4	46.2	33.0	15.6	2.7	—	—	—	—	—	—
California.....	6, 670	.1	.2	.4	.5	1.1	2.0	6.0	89.6	—	—	—
Colorado.....	387	—	1.8	5.7	14.7	35.9	22.2	11.1	3.1	3.1	1.3	1.0
Connecticut.....	143	.7	8.4	9.1	21.7	55.2	1.4	—	—	—	.7	2.8
Delaware.....	122	2.5	19.7	30.3	18.8	28.7	—	—	—	—	—	—
District of Columbia.....	213	—	2.8	15.5	24.9	31.5	14.1	7.5	2.3	1.4	—	—
Florida.....	2, 748	.8	1.7	12.8	27.4	57.2	—	—	—	—	—	—
Georgia.....	2, 212	3.7	53.6	27.4	10.7	4.6	—	—	—	—	—	—
Hawaii.....	79	—	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )
Idaho.....	204	—	4.9	15.2	15.2	21.6	21.6	9.3	8.8	2.0	1.0	.5
Illinois.....	4, 748	.5	1.8	11.6	26.7	34.2	20.0	2.7	2.1	.2	.1	.1
Indiana.....	1, 908	.8	4.7	29.7	32.4	32.3	.1	—	—	—	—	.1
Iowa.....	1, 221	1.5	3.0	11.1	27.4	26.7	14.7	7.5	4.1	2.3	1.6	.2
Kansas.....	948	.4	4.0	20.0	25.7	25.3	12.8	6.5	3.5	.6	.5	.5
Kentucky.....	1, 803	2.2	67.5	26.1	3.5	.7	—	—	—	—	—	—
Louisiana.....	1, 565	4.0	31.1	29.8	21.6	9.2	3.0	.9	.3	—	—	—
Maine.....	709	.4	4.9	25.8	31.5	37.4	—	—	—	—	—	—
Maryland.....	464	.6	11.4	20.0	27.6	38.4	1.5	.2	—	.2	—	—
Massachusetts.....	1, 231	.4	2.4	3.0	9.7	34.8	19.0	15.3	7.6	3.8	1.9	2.0
Michigan.....	1, 448	.6	.8	10.2	17.0	69.3	—	2.2	—	—	—	—
Minnesota.....	1, 006	.3	1.3	9.7	22.8	28.8	18.8	8.3	5.2	1.7	1.2	2.0
Mississippi.....	2, 090	.5	21.3	45.2	33.0	—	—	—	—	—	—	—
Montana.....	412	—	1.9	7.0	15.5	75.5	—	—	—	—	—	—
Nebraska.....	480	.4	1.2	16.0	32.7	26.2	18.1	1.9	1.5	.8	—	1.0
New Hampshire.....	294	1.4	3.1	14.6	21.4	47.6	4.4	2.4	1.0	2.7	1.0	.3
New Jersey.....	603	.3	1.7	9.6	24.9	34.7	21.7	5.3	.8	.3	.7	—
New Mexico.....	395	—	4.8	22.8	22.8	20.8	24.3	4.6	—	—	—	—
New York.....	3, 433	.3	1.8	7.7	14.9	20.0	18.8	14.1	11.8	5.5	2.0	3.0
North Carolina.....	2, 960	.2	24.0	40.6	21.1	14.0	—	—	—	—	—	—
North Dakota.....	124	—	3.2	25.8	28.2	21.8	12.9	4.8	—	.8	1.6	.8
Ohio.....	3, 295	.6	4.8	20.4	26.2	23.3	24.6	—	—	—	—	—
Oklahoma.....	2, 548	.2	1.0	1.2	13.1	84.6	—	—	—	—	—	—
Oregon.....	376	.5	.5	10.1	22.3	25.5	13.0	12.5	9.0	2.9	2.1	1.3
Rhode Island.....	141	1.4	4.3	22.7	19.9	17.7	14.2	9.2	6.4	1.4	1.4	1.4
South Carolina.....	1, 237	1.0	25.5	73.5	—	—	—	—	—	—	—	—
South Dakota.....	216	.5	9.7	48.1	24.1	17.6	—	—	—	—	—	—
Tennessee.....	1, 782	.3	16.0	33.8	25.5	24.3	—	—	—	—	—	—
Texas.....	5, 461	.2	3.0	31.6	37.7	27.4	—	—	—	—	—	—
Utah.....	135	.7	3.7	2.2	20.0	47.4	9.6	3.0	5.2	5.2	2.2	.7
Vermont.....	177	.6	3.4	14.1	18.1	63.8	—	—	—	—	—	—
Virginia.....	1, 168	6.2	38.2	26.1	17.4	12.2	—	—	—	—	—	—
Washington.....	645	.9	.8	2.0	5.6	20.9	23.7	12.4	12.2	10.9	4.7	5.9
West Virginia.....	882	.7	36.7	37.8	18.7	6.1	—	—	—	—	—	—
Wisconsin.....	1, 277	.3	2.7	16.0	29.3	43.8	7.9	—	—	—	—	—
Wyoming.....	100	—	1.0	1.0	7.0	35.0	21.0	35.0	—	—	—	—

<sup>1</sup> Data for September 1947.<sup>2</sup> Not computed on base of less than 100 recipients.



TABLE 9.—*Aid to dependent children: Distribution of payments to families, October 1947*

State	Number of pay-ments	Percent receiving—										
		Less than \$10	\$10 to \$19.99	\$20 to \$29.99	\$30 to \$39.99	\$40 to \$49.99	\$50 to \$59.99	\$60 to \$69.99	\$70 to \$79.99	\$80 to \$89.99	\$90 to \$99.99	\$100 or more
Total.....	413,724	0.9	7.6	14.8	13.8	7.9	10.5	8.5	7.4	6.5	5.3	16.8
Alabama.....	9,111	3.3	18.7	32.0	22.6	11.1	7.0	3.3	1.0	.6	.2	.1
Alaska.....	228	.9	31.1	8.3	26.8	18.4	9.2	3.5	1.8			
Arizona.....	2,169	2.3	6.2	27.2	22.9	4.2	16.0	9.9	1.1	5.3	2.6	2.4
Arkansas <sup>1</sup> .....	7,611	1.7	13.0	30.4	22.9	9.0	12.3	6.3	2.5	1.2	.6	.1
California.....	12,326	.2	.7	2.6	7.3	5.1	4.4	6.1	8.3	8.9	7.8	48.5
Colorado.....	4,211	.4	3.3	5.6	8.2	9.4	10.3	12.8	12.4	9.9	7.7	20.1
Connecticut.....	2,763	.9	2.8	4.2	5.2	6.0	8.0	7.2	7.8	8.5	8.9	40.4
Delaware.....	315	.6	.6	4.1	3.5	7.9	17.5	17.8	1.9	19.7	11.4	14.9
District of Columbia.....	1,157		1.6	4.3	7.0	9.1	10.1	11.7	13.1	13.1	10.2	19.8
Florida.....	13,210	.5	4.4	31.4	25.1	1.6	16.3	10.0	.4	5.2	2.9	2.2
Georgia.....	6,641	2.0	15.3	32.0	23.0	7.9	10.4	5.6	1.0	1.9	1.0	
Hawaii.....	1,132	.1	1.9	6.4	5.8	8.0	9.1	7.6	8.5	10.0	7.6	35.0
Idaho.....	1,734	.5	3.9	8.9	6.3	8.3	7.4	9.6	8.4	9.1	7.8	29.8
Illinois.....	21,322	.4	2.7	6.1	5.1	7.3	8.5	9.8	11.2	10.6	9.8	28.6
Indiana.....	7,842	.7	4.9	16.4	26.1	17.1	5.5	12.9	7.7	1.2	3.6	3.8
Iowa.....	4,237	1.7	7.7	11.1	10.6	10.5	10.4	9.7	8.4	7.0	5.5	17.5
Kansas.....	4,802	.5	3.1	9.8	7.7	9.3	11.0	11.6	11.3	8.4	7.1	20.2
Kentucky.....	11,143	.8	35.8	3.6	22.6	15.9	9.8	6.5	3.2	.5	1.0	.4
Louisiana.....	12,735	4.5	12.6	14.7	19.1	25.0	11.3	6.5	3.0	1.9	1.6	
Maine.....	1,859	.4	2.4	4.5	5.1	8.1	18.3	5.1	18.2	3.5	13.4	21.1
Maryland.....	5,215	1.0	4.1	7.1	7.5	8.8	9.7	11.5	11.2	9.0	7.8	22.1
Massachusetts.....	9,441	.6	1.3	3.3	4.7	4.9	5.7	6.7	7.4	8.2	8.2	49.0
Michigan.....	20,443	.3	2.0	4.2	5.3	6.3	8.0	9.8	24.2	12.5	9.2	18.2
Minnesota.....	6,199	.2	2.1	4.8	6.2	7.8	22.0	5.4	18.9	14.0	1.5	17.2
Mississippi.....	5,437	.1	30.6	25.5	31.3	10.0	2.2	.3	( <sup>2</sup> )			
Missouri.....	20,485	1.4	32.7	25.1	17.2	11.0	6.5	3.5	1.7	.6	.2	.1
Montana.....	1,712		3.1	9.6	10.6	11.6	10.1	10.4	9.0	8.8	7.4	19.5
Nebraska.....	3,246	.4	3.3	10.9	6.2	9.5	7.7	10.4	12.1	14.1	10.6	14.7
New Hampshire.....	1,121	.1	1.5	6.8	5.9	6.2	8.7	10.7	9.8	10.9	8.7	30.9
New Jersey.....	4,307	.2	2.9	6.8	7.0	6.5	7.6	9.0	10.8	10.1	8.7	30.3
New Mexico.....	3,907		13.9	11.6	15.3	16.5	14.9	10.3	7.0	4.5	2.2	3.8
New York.....	43,945	.5	1.3	2.4	3.2	4.5	5.6	7.1	9.7	11.0	10.6	44.2
North Carolina.....	7,958	1.0	14.0	30.9	25.0	9.6	10.1	6.1	1.0	1.4	.5	.3
North Dakota.....	1,569	.1	3.5	8.0	9.9	8.9	10.3	11.5	9.9	7.6	6.7	23.5
Ohio.....	9,421	.3	3.9	10.4	13.2	10.4	12.2	11.5	8.7	7.6	5.7	16.0
Oklahoma.....	28,968	.2	.8	37.8	24.5	.2	15.5	9.4	( <sup>2</sup> )	.7	3.3	2.3
Oregon.....	2,307	.1	1.2	4.4	4.6	8.1	7.6	7.5	9.8	9.9	9.0	37.9
Pennsylvania.....	35,753	.5	2.7	5.3	7.3	9.7	15.5	13.0	11.4	8.6	6.9	19.2
Rhode Island.....	2,632	.5	3.1	4.5	7.1	8.3	8.5	9.3	11.2	12.1	9.5	25.8
South Carolina.....	5,949	6.7	35.8	24.9	19.0	9.0	3.4	1.0	.2	( <sup>2</sup> )		
South Dakota.....	1,752	.5	3.6	8.0	29.9	24.0	15.0	8.8	.9	5.4	1.9	2.1
Tennessee.....	14,322	.3	5.5	25.7	25.0	4.3	16.6	11.8	2.1	4.9	2.4	1.3
Texas.....	15,443	1.0	5.7	29.6	26.1	3.1	16.1	9.6	8.8			
Utah.....	2,477	.2	1.5	4.7	4.4	6.9	5.9	6.7	8.9	9.3	9.8	41.8
Vermont.....	708	.4	5.8	28.2	23.6	2.8	15.8	9.9	1.0	6.5	2.5	3.4
Virginia.....	4,652	2.1	15.3	20.9	20.7	12.9	10.4	7.4	3.8	2.6	1.5	2.4
Washington.....	7,205	.6	1.6	5.2	4.2	5.0	5.5	6.5	9.0	8.9	9.5	44.1
West Virginia.....	10,114	1.5	10.7	26.6	21.8	7.6	12.3	8.6	4.2	3.7	1.9	1.2
Wisconsin.....	7,105	.3	2.4	7.5	7.2	7.3	9.1	8.5	8.8	9.0	7.2	32.6
Wyoming.....	383	.3	1.3	3.4	6.3	5.2	10.4	7.0	12.0	10.4	8.1	35.5

<sup>1</sup> Data for September 1947.<sup>2</sup> Less than 0.05 percent.

TABLE 10.—*Old-age assistance: Expenditures for assistance payments and administration, fiscal years 1936-47*

Fiscal year	Expenditures for assistance and administration, fiscal year					Recipients, June	Average assistance payment, June
	Total	Assistance		Administration <sup>1</sup>			
		Federal funds	State-local funds	Federal funds	State-local funds		
1936.....	\$33,805,000	\$16,602,000	\$17,203,000	-----	-----	603,710	\$15.99
1937.....	243,229,000	119,095,000	124,134,000	-----	-----	1,290,673	18.91
1938.....	360,239,000	174,085,000	186,154,000	-----	-----	1,659,295	19.48
1939.....	415,764,000	198,645,000	217,119,000	-----	-----	1,845,040	19.43
1940.....	474,068,000	220,414,000	229,572,000	\$8,600,000	\$15,482,000	1,969,743	19.92
1941.....	535,700,000	251,254,000	253,799,000	12,060,000	18,587,000	2,170,500	21.08
1942.....	602,052,000	282,649,000	285,698,000	13,746,000	19,959,000	2,253,522	21.83
1943.....	652,901,000	305,748,000	310,512,000	15,320,000	21,321,000	2,170,090	24.61
1944.....	720,416,000	326,845,000	352,487,000	16,216,000	24,868,000	2,087,748	27.56
1945.....	743,981,000	335,453,000	366,498,000	16,655,000	25,375,000	2,038,443	29.46
1946.....	806,349,000	354,983,000	406,604,000	17,529,000	27,233,000	2,108,216	31.48
1947.....	960,295,000	472,007,000	438,262,000	23,336,000	26,690,000	2,271,007	36.04

<sup>1</sup> Data for 1936-39 not available.<sup>2</sup> Represents data for February-June.TABLE 11.—*Aid to the blind: Expenditures for assistance payments and administration for State-Federal programs, fiscal years 1936-47*

Fiscal year	Expenditures for assistance and administration, fiscal year					Recipients, June	Average assistance payment, June
	Total	Assistance		Administration <sup>1</sup>			
		Federal funds	State-local funds	Federal funds	State-local funds		
1936.....	\$1,810,000	\$885,000	\$925,000	-----	-----	17,571	\$24.10
1937.....	8,981,000	4,213,000	4,678,000	-----	-----	35,042	24.96
1938.....	11,339,000	5,046,000	6,293,000	-----	-----	38,783	23.32
1939.....	11,906,000	5,170,000	6,736,000	-----	-----	44,579	23.22
1940.....	13,791,000	5,805,000	7,015,000	\$365,000	\$606,000	47,538	23.53
1941.....	15,043,000	6,483,000	7,243,000	627,000	690,000	49,817	23.67
1942.....	16,541,000	7,097,000	7,919,000	733,000	792,000	54,378	24.37
1943.....	17,965,000	7,720,000	8,563,000	834,000	848,000	53,712	25.94
1944.....	20,595,000	8,729,000	9,739,000	1,054,000	1,073,000	56,834	28.64
1945.....	21,729,000	9,350,000	10,452,000	955,000	972,000	55,466	30.27
1946.....	23,500,000	9,658,000	11,751,000	1,037,000	1,054,000	57,616	32.89
1947.....	28,113,000	12,834,000	12,894,000	1,184,000	1,201,000	62,085	37.87

<sup>1</sup> Data for 1936-39 not available.<sup>2</sup> Represents data for February-June.TABLE 12.—*Aid to dependent children: Expenditures for assistance payments and administration for State-Federal programs, fiscal years 1936-47*

Fiscal year	Expenditures for assistance and administration, fiscal year					Recipients, June		Average assistance payments, June	
	Total	Assistance		Administration <sup>1</sup>		Families	Children	Per family	Per child
		Federal funds	State-local funds	Federal funds	State-local funds				
1936.....	\$5,621,000	\$1,691,000	\$3,930,000	-----	-----	69,664	175,144	\$23.46	\$9.33
1937.....	40,774,000	12,005,000	28,769,000	-----	-----	171,434	421,868	30.56	12.42
1938.....	79,694,000	22,269,000	57,425,000	-----	-----	243,422	603,335	31.40	12.67
1939.....	102,796,000	27,544,000	75,252,000	-----	-----	297,344	717,989	31.21	12.92
1940.....	128,259,000	40,403,000	78,468,000	\$3,771,000	\$5,617,000	333,018	801,754	32.09	13.33
1941.....	152,793,000	57,528,000	84,063,000	5,516,000	5,686,000	379,655	916,895	33.01	13.67
1942.....	167,824,000	62,774,000	91,636,000	6,549,000	6,865,000	391,755	943,079	33.87	14.07
1943.....	161,926,000	58,627,000	89,754,000	6,754,000	6,791,000	301,353	740,031	38.96	15.86
1944.....	148,099,000	50,266,000	84,891,000	6,402,000	6,540,000	260,126	651,208	43.13	17.23
1945.....	151,398,000	48,520,000	89,564,000	6,637,000	6,677,000	255,577	646,575	47.46	18.76
1946.....	188,868,000	54,869,000	117,931,000	8,008,000	8,060,000	311,250	799,325	53.71	20.91
1947.....	275,624,000	95,876,000	158,459,000	10,626,000	10,663,000	396,098	1,009,360	61.68	24.21

<sup>1</sup> Data for 1936-39 not available.<sup>2</sup> Represents data for February-June.

TABLE 13.—General assistance: Expenditures for assistance payments and administration, fiscal years 1936-47

Fiscal year	Expenditures for assistance and administration, fiscal year			Cases receiving assistance, June	Average assistance payment, June
	Total <sup>1</sup>	Assistance	Administration <sup>1</sup>		
1936.....		\$239,390,000		1,556,000	\$21.42
1937.....		401,430,000		1,277,000	22.10
1938.....		451,410,000		1,648,000	22.30
1939.....		472,359,000		1,568,000	23.72
1940.....	\$493,896,000	444,450,000	\$49,446,000	1,354,000	23.22
1941.....	389,935,000	336,945,000	52,990,000	934,000	22.03
1942.....	262,088,000	219,413,000	42,675,000	607,000	23.30
1943.....	166,876,000	137,441,000	29,435,000	354,000	26.19
1944.....	116,878,000	95,367,000	21,511,000	258,000	27.87
1945.....	104,763,000	85,545,000	19,218,000	234,000	29.07
1946.....	121,061,000	100,960,000	20,101,000	278,000	32.67
1947.....	168,173,000	143,836,000	24,337,000	335,000	39.18

<sup>1</sup> Data for 1936-39 not available; data incomplete for 1940-47.<sup>2</sup> Represents data for January-June.

TABLE 14.—General assistance: Percentage of assistance payments met from State funds, fiscal year ended June 30, 1947

State	Percent	State	Percent
None:		25 to 49—Continued	
California.....		New Jersey.....	36.1
Florida.....		Connecticut.....	45.3
Georgia.....		Illinois.....	46.9
Idaho.....		Alabama.....	48.4
Indiana.....		Maryland.....	49.7
Iowa <sup>1</sup> .....		Colorado.....	49.8
Kentucky.....		50 to 74:	
Mississippi.....		Delaware.....	50.0
Nebraska.....		Michigan.....	51.6
Nevada.....		Virginia.....	53.1
New Hampshire.....		Oklahoma.....	58.8
North Carolina.....		Washington.....	68.1
South Dakota.....		Rhode Island.....	70.0
Tennessee.....		75 or more:	
Texas.....		Louisiana.....	77.6
Less than 25:		Wyoming.....	80.3
Vermont.....	0.3	New York.....	80.9
Wisconsin.....	2.6	Utah <sup>2</sup> .....	85.0
Montana.....	14.9	South Carolina.....	90.6
Massachusetts.....	23.2	Oregon.....	95.7
Minnesota.....	23.4	New Mexico.....	98.5
25 to 49:		Missouri.....	99.1
North Dakota.....	31.1	Arizona.....	100.0
Maine.....	32.0	Arkansas.....	100.0
West Virginia.....	32.1	Ohio.....	100.0
Kansas.....	33.0	Pennsylvania.....	100.0

<sup>1</sup> Some State funds are available though none was expended during this fiscal year.<sup>2</sup> As of July 1, 1947, the State assumed all financial responsibility.

TABLE 15.—Statutory residence provisions for public assistance programs under Social Security Act, February 1948

State	5 years <sup>1</sup>		3 years <sup>2</sup>		2 years <sup>3</sup>		1 year			None <sup>4</sup>		
	Old-age assistance	Aid to the blind	Old-age assistance	Aid to the blind	Old-age assistance	Aid to the blind	Old-age assistance <sup>5</sup>	Aid to the blind <sup>5</sup>	Aid to dependent children <sup>6</sup>	Old-age assistance	Aid to the blind	Aid to dependent children
Alabama.....							X	X				X
Alaska.....	X								X		( <sup>9</sup> )	
Arizona.....		<sup>7</sup> X							X			
Arkansas.....							X	<sup>7</sup> X	X			
California.....	X	<sup>7</sup> X							X			
Colorado.....	X	<sup>7</sup> X							X			
Connecticut.....	X	X							X			
Delaware.....	X	<sup>7</sup> X							X			
District of Columbia.....	X	<sup>9</sup> X							X			
Florida.....	X	X							X			
Georgia.....							X	X				X
Hawaii.....							X	X	X			
Idaho.....							X	X	X			
Illinois.....							X	<sup>7</sup> X	X			
Indiana.....	X	<sup>7</sup> X							X			
Iowa.....	X	<sup>7</sup> X							X			
Kansas.....	X	X							X			
Kentucky.....			X	<sup>7</sup> X					X	X	X	X
Louisiana.....									X			
Maine.....	X	X							X			
Maryland.....							X	<sup>7</sup> X	X			
Massachusetts.....			X	<sup>7</sup> X					X			
Michigan.....	X	<sup>7</sup> X							X			
Minnesota.....	X							X	X			
Mississippi.....							X				X	X
Missouri.....	X								X		( <sup>9</sup> )	
Montana.....		X							X			
Nebraska.....	X							X	X			
Nevada.....	X									( <sup>9</sup> )	( <sup>9</sup> )	
New Hampshire.....	X							X	X			
New Jersey.....							X	X	X			
New Mexico.....	( <sup>4</sup> )	( <sup>4</sup> , <sup>7</sup> )							X	<sup>4</sup> X	<sup>4</sup> , <sup>7</sup> X	X
New York.....							X	X	X	X	X	X
North Carolina.....							X	X	X			
North Dakota.....									X			
Ohio.....	X	<sup>7</sup> X							X			
Oklahoma.....	X	<sup>7</sup> X							X			
Oregon.....	X	X							X			
Pennsylvania.....							X		X		( <sup>9</sup> )	
Rhode Island.....									X	X	X	X
South Carolina.....							X	<sup>7</sup> X	X			
South Dakota.....					X	X			X			
Tennessee.....	X	X							X			
Texas.....	X	X							X			
Utah.....										X	X	X
Vermont.....			X			<sup>7</sup> X			X			
Virginia.....	X	X							X			
Washington.....	X	<sup>7</sup> X							X			
West Virginia.....							X	X	X			
Wisconsin.....							X	<sup>7</sup> X				X
Wyoming.....							X	X	X			

<sup>1</sup> With the exception of Alaska and Colorado, the provision is residence in the State for 5 of last 9 years including 1 year immediately preceding application. Alaska and Colorado do not require the year immediately preceding application.

<sup>2</sup> With the exception of Vermont, the provision is residence in the State for 3 of last 9 years including 1 year immediately preceding application. Vermont requires 3 of last 10 years and does not require the year immediately preceding application.

<sup>3</sup> The provision is residence in the State for 2 of last 9 years including 1 year immediately preceding application.

<sup>4</sup> Although New Mexico has no statutory residence provision, there is an administrative requirement of 5 of last 9 years, including 1 year immediately preceding application.

<sup>5</sup> These States require residence of 1 year immediately preceding application. Georgia provides that a person must have been a "bona fide resident" of the State for not less than 1 year.

<sup>6</sup> States listed in this column vary in minor detail from a basic 1 year requirement.

<sup>7</sup> Residence requirement waived if persons became blind while residing in State.

<sup>8</sup> No approved State plan.

<sup>9</sup> Residence requirement reduced to 1 year immediately preceding application if person became blind while residing in District of Columbia.



TABLE 16.—*Federal grants for public assistance per capita, by State, 1946-1947*

State (in order of 1946 per capita income)	Federal grants certified 1946-47  (000's) (1)	Population 1946  (000's) (2)	Federal grants per capita  (1) ÷ (2) (3)	Per capita income 1946  (4)	Federal grant per capita as percent of total per capita income  (3) ÷ (4) (5)
Continental United States.....	\$612, 720	138, 394	\$4. 43	\$1, 200	0. 37
Nevada.....	563	134	4. 22	1, 703	. 25
New York.....	40, 580	13, 693	2. 96	1, 633	. 18
District of Columbia.....	1, 067	815	1. 31	1, 569	. 08
California.....	53, 733	9, 342	5. 75	1, 531	. 38
New Jersey.....	6, 997	4, 217	1. 66	1, 494	. 11
Delaware.....	319	286	1. 12	1, 493	. 08
Illinois.....	38, 727	7, 946	4. 87	1, 486	. 33
Connecticut.....	4, 588	1, 958	2. 34	1, 465	. 16
Montana.....	3, 236	477	6. 79	1, 394	. 49
Massachusetts.....	25, 797	4, 568	5. 65	1, 356	. 42
Rhode Island.....	2, 555	735	3. 47	1, 347	. 26
Washington.....	21, 525	2, 168	9. 93	1, 346	. 74
Ohio.....	32, 028	7, 499	4. 27	1, 302	. 33
Maryland.....	4, 313	2, 109	2. 05	1, 293	. 16
Wyoming.....	1, 229	260	4. 73	1, 264	. 37
Idaho.....	3, 163	470	6. 72	1, 243	. 54
Pennsylvania.....	33, 107	10, 004	3. 31	1, 238	. 27
South Dakota.....	3, 238	647	5. 92	1, 228	. 48
Michigan.....	27, 727	6, 050	4. 58	1, 215	. 38
Wisconsin.....	13, 014	3, 163	4. 12	1, 198	. 34
Colorado.....	12, 486	1, 103	11. 32	1, 186	. 95
Oregon.....	6, 586	1, 449	4. 55	1, 188	. 38
Iowa.....	12, 191	2, 541	4. 80	1, 183	. 41
Nebraska.....	7, 299	1, 269	5. 75	1, 164	. 49
North Dakota.....	2, 763	1, 537	5. 14	1, 162	. 44
Indiana.....	14, 728	3, 745	3. 93	1, 158	. 34
Missouri.....	29, 766	3, 766	7. 90	1, 143	. 69
Minnesota.....	14, 299	2, 818	5. 07	1, 090	. 47
Vermont.....	1, 289	353	3. 65	1, 085	. 34
Utah.....	4, 475	623	7. 18	1, 063	. 68
Kansas.....	8, 867	1, 835	4. 83	1, 062	. 45
New Hampshire.....	1, 943	513	3. 78	1, 048	. 36
Maine.....	4, 444	874	5. 08	1, 044	. 49
Florida.....	15, 027	2, 249	6. 68	1, 010	. 66
Arizona.....	3, 869	617	6. 27	995	. 63
Texas.....	40, 644	6, 809	5. 97	954	. 63
Virginia.....	3, 370	2, 886	1. 17	952	. 12
West Virginia.....	5, 026	1, 806	2. 78	914	. 30
New Mexico.....	2, 772	519	5. 34	911	. 59
Tennessee.....	9, 263	2, 987	3. 10	843	. 37
Oklahoma.....	32, 674	2, 211	14. 78	825	1. 79
North Carolina.....	6, 749	3, 573	1. 89	817	. 23
Georgia.....	10, 898	3, 088	3. 53	809	. 44
Louisiana.....	10, 985	2, 460	4. 45	784	. 57
Kentucky.....	7, 661	2, 698	2. 84	778	. 37
Alabama.....	8, 054	2, 774	2. 90	733	. 40
South Carolina.....	5, 046	1, 883	2. 68	729	. 37
Arkansas.....	6, 067	1, 877	3. 23	697	. 46
Mississippi.....	5, 959	2, 081	2. 86	555	. 52

NOTE.—Computations in Column 3 based on unrounded data.

Source: Column 1, annual report, Federal Security Agency, 1947, p. 166; column 2, estimated by Bureau of the Census; column 4, Survey of Current Business, August 1947.

APPENDIX III-B. MEMORANDUM OF DISSENT BY FOUR MEMBERS  
FROM THE MAJORITY REPORT WITH RESPECT TO FEDERAL PARTIC-  
IPATION IN GENERAL ASSISTANCE

Those opposing the extension of Federal grants to include general assistance are fully cognizant of the pressing need to improve the standards and effectiveness of this type of social-welfare program. They believe, however, that the extension and liberalization of the social insurances and the improvement of the program for aid to dependent children currently recommended by this Council, if adopted, will in time materially reduce the burden of general assistance to be borne by the States and localities. Further, they are convinced that general assistance for persons of working age is in particular, under our form of government, the responsibility of the State and locality, since sustained and immediate participation by community representatives is essential to the effective and economical administration of this form of assistance. They would favor the broadening of the existing program of Federal participation in State aid to the blind to cover persons of working age who are totally and permanently disabled by other specified physical impairments of an equally serious and demonstrable character.

### APPENDIX III-C. STAFF FOR PUBLIC ASSISTANCE

Robert M. Ball, staff director.

Fedele F. Fauri, research director.

Leona V. MacKinnon, executive assistant.

Helen Livingston, research assistant.

Donald S. Howard, director, department of social-work administration, Russell Sage Foundation, acted as consultant.

## Part IV

# UNEMPLOYMENT INSURANCE

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### INTRODUCTION AND SUMMARY

#### *Characteristics of State-Federal Unemployment Insurance*

During the long and deep depression of the 1930's, the United States became acutely aware of the plight of millions of men and women who were unemployed through no fault of their own. Although up to that time, only one State had enacted an unemployment insurance law, the Federal Government took steps in 1935 to provide unemployment insurance at an early date for a large proportion of the industrial and commercial labor force. The Social Security Act of 1935, however, did not set up a single Federal system of unemployment insurance. Rather, through a tax-offset device, it encouraged the States to establish their own systems conforming to a few broad Federal standards. Within 2 years, the 48 States, the District of Columbia, Alaska, and Hawaii had unemployment insurance laws.

The Federal Government levies a 3 percent tax on the pay rolls of employers in business and industry who have eight or more employees. This tax can be offset—up to 90 percent—by contributions paid by employers under approved State laws. A State law can be approved only if the funds collected under it are deposited to the State's account in a trust fund in the Federal Treasury to be used by the State exclusively for the payment of unemployment insurance benefits. Furthermore, the benefits provided under the State law must be paid through public employment offices "or such other agencies as the Federal Security Administrator may approve." In general, no Federal standards have been established relating to such benefit rights as the amount or duration of benefits. One Federal standard relating to benefits, however, was set as a condition for tax offset; namely, that benefits under the State law shall not be denied to any otherwise eligible individual for refusing to accept new work (1) if the position offered is vacant due directly to a labor dispute; (2) if the working conditions offered are substantially less favorable than those prevailing for similar work in the locality; or (3) if, as a condition of employment, the individual must join a company union or resign from or refrain from joining any bona fide labor organization.

As an incentive to employment stabilization, employers were allowed credit against the Federal tax, not only for contributions actually paid, but also for contributions which were waived because the employer's contribution rate was reduced by the State on the basis of his experience with unemployment "or other factors directly related to unemployment risk."

In addition to stimulating the enactment of State unemployment insurance laws, the Federal Government undertook to assure adequate



Nation-wide provision for administering the program, by authorizing grants to States to meet the total cost necessary for proper and efficient administration of their laws. Although technically made from the general Federal Treasury, it is clear from the hearings and committee reports that these grants were thought of as being financed by the 0.3 percent of covered pay rolls which constitutes the income to the Federal Government from the Federal Unemployment Tax Act. These administrative grants were to enable, and also require, the States to use methods of administration reasonably calculated to insure the full payment of benefits when due, to provide for fair hearings to those whose claims are denied, to make reports, and to cooperate effectively with public works agencies and the Railroad Retirement Board. A State was not entitled to the grants if these conditions were not met or if, in the administration of the State law, benefits were denied in a substantial number of cases to individuals entitled thereto under the State law. Except for these very general Federal standards, each of the 51 systems has established its own eligibility requirements, benefit amounts and duration, waiting periods, disqualification rules, and administrative procedures.

The Council has studied the present State-Federal arrangements, and the majority approves the basic principles of the system. In the opinion of the majority (1) the State is the proper unit to determine the benefit provisions which will meet the varying conditions in different parts of the country; (2) State laws can assure more adequate benefits in highly industrialized areas; and (3) the State-Federal program has shown over the past 10 years that it is capable of making progress. In most States the minimums, maximums, and average weekly payments have risen, durations have increased, waiting periods have decreased, and coverage has broadened.

Five members of the Council, however, favor the establishment of a single national system of unemployment insurance. (See appendix IV-C.) In their opinion unemployment is essentially a national problem and is an inappropriate area for State operation. They point out that many workers move from State to State in their search for work and that labor markets cut across State lines. The maintenance of 51 separate systems, each with its own reserve, is in their opinion actuarially unsound. They also feel that the effectiveness of the various State plans has been diminished by the growing restrictions on benefits and that the progressive changes in the benefit provisions of State laws have not kept pace with increasing wages and prices. Four of these members would join with the majority, however, in the recommendations included in this report for the improvement of the State-Federal system should the Congress decide against the establishment of a national program. One member is not signing the recommendations of the Council since he disagrees with some of the most important ones even under a continued State-Federal system. (See appendix IV-C.)

### ***Deficiencies in the Present Program***

The dual nature of the State-Federal plan for unemployment insurance has limited the scope of the Council's work. Since the actual administration of unemployment benefits is the responsibility of 48 States, the District of Columbia, and the Territories of Alaska and

Hawaii, it would have been impracticable for the Council to have made a detailed investigation of administration in each jurisdiction. The Council, however, has studied the basic principles and operations of the State-Federal program and finds five major deficiencies:

1. *Inadequate coverage.*—Only about 7 out of 10 employees are now covered by unemployment insurance.

2. *Benefit financing which operates as a barrier to liberalizing benefit provisions.*—The present arrangements permit States to compete in establishing low contribution rates for employers and therefore discourages the adoption of more adequate benefit provisions.

3. *Irrational relationship between the contribution rates and the cyclical movements of business.*—The present arrangements tend to make the contribution rate fluctuate inversely with the volume of employment, declining when employment is high and when contributions to the unemployment compensation fund are easiest to make and increasing when employment declines and when the burden of contributions is greatest.

4. *Administrative deficiencies.*—Improvement is needed in methods of financing administrative costs, provisions for determining eligibility and benefit amount in interstate claims, procedures for developing interstate claims, and methods designed to insure prompt payments on all valid claims and to prevent payments on invalid claims.

5. *Lack of adequate employee and citizen participation in the program.*—Workers now have less influence on guiding the administration of the program and developing legislative policy than they should, and some employees, employers, and members of the general public tend to regard unemployment compensation more as a hand-out than as social insurance earned by employment, financed by contributions, and payable only to those who satisfy eligibility requirements.

The Council has also made recommendations on other points, but has mainly proposed measures designed to remedy these major defects. The recommendations apply only to the continental United States, Hawaii, and Alaska. The Council, in its report on old-age and survivors insurance, proposed that a special commission should be established to determine the various types of social-security protection appropriate to Puerto Rico, the Virgin Islands, Guam, and other possessions of the United States.<sup>1</sup>

### ***Recommendations for Improvement of the Program***

A summary of the Council's recommendations follows:

1. *Employees of small firms.*—The size-of-firm limitation on coverage in the Federal Unemployment Tax Act should be removed, and employees of small firms should be protected under unemployment insurance just as they are now protected under old-age and survivors insurance.

2. *Employees of nonprofit organizations.*—The Federal Unemployment Tax Act should be broadened to include employment by all nonprofit organizations, except that services performed by clergymen and members of religious orders should remain excluded. The exclusion of domestic workers in college clubs, fraternities, and sororities by the 1939 amendments to the Federal Unemployment Tax Act

<sup>1</sup> See p. 28.

should be repealed so that these workers will again be protected under all State laws.

3. *Federal civilian employees.*—Employees of the Federal Government and its instrumentalities should receive unemployment benefits through the State unemployment insurance agencies in accordance with the provisions of the State unemployment insurance laws. The States should be reimbursed for the amounts actually paid in benefits based on Federal employment. If there is employment under both the State system and for the Federal Government during the base period, the wage credits should be combined and the States should be reimbursed in the proportion which the amount of Federal employment or wages in the base period bears to the total employment or wages in the base period. The special provisions for federally employed maritime workers should be extended until this recommendation for covering all Federal employees becomes effective.

4. *Members of the armed forces.*—Members of the armed forces who do not come under the servicemen's readjustment allowance program should be protected by unemployment insurance.

5. *Borderline agricultural workers.*—To afford protection to certain workers excluded by the 1939 amendments to the Federal Unemployment Tax Act, defining agricultural labor, coverage of that act should be extended to services rendered in handling, packing, packaging, and other forms of processing agricultural and horticultural products, unless such services are performed for the owner or tenant of the farm on which the products are raised and he does not employ five or more persons in such activities in each of four calendar weeks during the year. Coverage should also be extended to services now defined as agricultural labor by section 1607 (1) (3) of the Unemployment Tax Act.

6. *Inclusion of tips in the definition of wages.*—The definition of wages contained in section 1607 (b) of the Federal Unemployment Tax Act should be amended to specify that such wages shall include all tips or gratuities customarily received by an employee from a customer of an employer.

7. *Contributory principle.*—To extend to unemployment insurance the contributory principle now recognized in old-age and survivors insurance, a Federal unemployment tax should be paid by employees as well as employers. Employee contributions to a State unemployment-insurance fund should be allowed to offset the Federal employee tax in the same manner as employer contributions are allowed to offset the Federal tax on employers. The employee tax would be collected by employers and paid by them when they pay their own unemployment tax.

8. *Maximum wage base.*—To take account of increased wage levels and costs of living, and to provide the same wage base for contributions and benefits as that recommended for old-age and survivors insurance, the upper limit on earnings subject to the Federal unemployment tax should be raised from \$3,000 to \$4,200.

9. *Minimum contribution rate.*—The Federal unemployment tax should be 0.75 percent of covered wages payable by employers and 0.75 percent payable by employees. The taxpayer should be allowed



to credit against the Federal tax the amount of contributions paid into a State unemployment fund, but this credit should not exceed 80 percent of the Federal tax. Since no additional credit against the Federal tax should be allowed for experience rating, the States would, in effect, be required to establish a minimum rate of 0.6 percent on employers and 0.6 percent on employees.

10. *Loan fund.*—The Federal Government should provide loans to a State for the payment of unemployment-insurance benefits when a State is in danger of exhausting its reserves and covered unemployment in the State is heavy. The loan should be for a 5-year period and should carry interest at the average yield of all interest-bearing obligations of the Federal Government.

11. *Standards on experience rating.*—If a State has an experience rating plan, the Federal act should require that the plan provide: (1) a minimum employer contribution rate of 0.6 percent; (2) an employee rate no higher than the lowest rate payable by an employer in the State; and (3) a rate for newly covered and newly formed firms for the first 3 years under the program which does not exceed the average rate for all employers in the State.

12. *Combining wage credits earned in more than one State and processing interstate claims.*—The Social Security Administration should be empowered to establish standard procedures for combining unemployment-insurance wage credits earned in more than one State and for processing interstate claims. These procedures should be worked out in consultation with the administrators of the State programs and should provide for the combination of wage credits not only when eligibility is affected but also when such combination would substantially affect benefit amount or duration. All States should be required to follow the prescribed procedures as a condition of receiving administrative grants. Similar procedures should be worked out, in cooperation with the Railroad Retirement Board, for combining wage credits earned under the State systems and under the railroad system.

13. *Financing administrative costs.*—Income from the Federal Unemployment Tax Act should be dedicated to unemployment-insurance purposes. One-half of any surplus over expenses incurred in the collection of the tax and the administration of unemployment insurance and the employment service should be appropriated to the Federal loan fund, and one-half of the surplus should be proportionately assigned to the States for administration or benefit purposes. A contingency item should be added to the regular congressional appropriation for the administration of the employment-security programs. The administrative standards in the Social Security Act should be applicable to the expenditure of the surplus funds as well as to expenditures of the funds originally appropriated.

14. *Clarification of Federal interest in the proper payment of claims.*—The Social Security Act should be amended to clarify the interest of the Federal Government not only in the full payment of benefits when due, but also in the prevention of improper payments.

15. *Standards for disqualifications.*—A Federal standard on disqualifications should be adopted prohibiting the States from (1) re-



ducing or canceling benefit rights as the result of disqualification except for fraud or misrepresentation, (2) disqualifying those who are discharged because of inability to do the work, and (3) postponing benefits for more than 6 weeks as the result of a disqualification except for fraud or misrepresentation.

16. *Study of supplementary plans.*—The Congress should direct the Federal Security Agency to study in detail the comparative merits in times of severe unemployment of (a) unemployment assistance, (b) extended unemployment-insurance benefits, (c) work relief, (d) other income-maintenance devices for the unemployed, including public works. This study should be conducted in consultation with the Social Security Administration's Advisory Council on Employment Security, the Council of Economic Advisers, and the State employment security agencies, and should make specific proposals for Federal measures to provide economic security for workers who do not have private or public employment during a depression and who are not adequately protected by unemployment insurance.

### ***Plan of the Report***

The Council's proposed remedies for the five major deficiencies of the present program are summarized in this section, which also includes a discussion of the need for a broad informational program. The section which follows presents the 16 specific recommendations in more detail. The report proper concludes with a discussion of temporary-disability insurance. The appendixes include cost estimates for unemployment insurance, material on the proper payment of benefits, dissents, and statistical information on the operation of the programs.

### ***Goal of Universal Coverage***

At present about 7 out of 10 jobs in American industry are covered by unemployment-insurance laws. It would obviously be desirable, if practicable, to have all jobs covered. In unemployment insurance, however, universal coverage would entail more difficult administrative problems than would be met in old-age and survivors insurance. The Council, therefore, does not recommend that the Federal Unemployment Tax Act be extended now to include the two groups which would present the greatest administrative difficulty—farm workers and domestic workers—and, in view of constitutional limitations, the coverage of employees of State and local governments will have to be left to the States.<sup>2</sup>

The Council favors the immediate extension of the Federal Unemployment Tax Act to the areas of employment that present no overwhelming administrative or legal difficulties—namely, to employment by small firms, by nonprofit organizations, by the Federal Government (both civil and military), and to certain borderline agricultural employments. Such extension might increase coverage in an average week by over 7 million or to about 85 percent of the total number of individuals employed by others.

<sup>2</sup> Extension of compulsory coverage to workers engaged in the "proprietary" functions of government—as opposed to regular governmental functions—is, in all probability, constitutional. In a State-Federal program, however, the Council believes that it would be better for States to provide for covering all governmental employees under one plan rather than, in effect, to force the coverage through Federal law of those governmental workers engaged in "proprietary" activities.

In absolute terms, the number of individuals in employment covered by the State unemployment-insurance laws has increased markedly in the past 10 years. This increase is shown in the following table:

TABLE A.—Average monthly covered employment, 1938-48

[In millions]			
	<i>Covered workers</i>		<i>Covered workers</i>
1938.....	19.9	1944.....	30.0
1939.....	21.4	1945.....	28.4
1940.....	23.1	1946.....	30.2
1941.....	26.8	1947.....	32.2
1942.....	29.3	1948 (June).....	32.6
1943.....	30.8		

Much of this increase has resulted from the increase in the active labor force of the United States. In considerable measure, however, the increase also reflects changes in the size of firm covered by State laws. The original laws of 33 States limited coverage to commercial and industrial workers in firms with 8 or more employees in at least 20 weeks in a calendar year. In 1948, 17 States covered employees in firms with 1 or more persons, although only 6 of the laws applied without restriction as to the number of workers, length of employment, or size of pay roll; and only 22 States still excluded from coverage employees of firms with less than 8 persons (table 2, appendix IV-E). The laws of 29 States contain provisions which will automatically extend coverage to smaller firms to the extent that the Federal size-of-firm restriction is reduced.

While progress has been made in extending coverage to smaller firms, maritime services represent the only type of work originally excluded to which coverage has been extended on a general scale. Effective July 1, 1946, Congress extended the Federal unemployment tax to services in private maritime employment and the States with maritime firms amended their laws accordingly. As early as 1944, a few States had already extended coverage to maritime workers following a Supreme Court decision that the Constitution did not prohibit such coverage under State laws. In addition, the War Mobilization and Reconversion Act of 1944 provided reconversion benefits for federally employed seamen.

The Federal Unemployment Tax Act now excludes agricultural labor; domestic service in a private home; service of an individual for his son, daughter, or spouse, or of a minor child for a parent; services for Federal, State, or local governments, or for foreign governments; services for nonprofit, religious, charitable, educational, scientific, or humane organizations; casual labor not in the course of the employer's business; and miscellaneous services such as services as a student nurse or interne, service for employees' beneficial associations, domestic service for college clubs, and services for organizations exempt from Federal income tax if the remuneration is not more than \$45 in a calendar quarter. Railroad employment, which was originally covered, is now under a separate Federal unemployment insurance system.

The occupational exclusions in State laws are in most cases the same as those in the Federal act, but several States have provided for broader coverage. New York from the outset has covered domestic workers in a home with four or more domestics, and in 1947 New York provided protection for State employees. Wisconsin has covered some State and local government employees from the beginning. Hawaii in 1945 and Tennessee in 1947 extended coverage to nonprofit organizations, excluding ministers, members of religious orders, and, in Tennessee, executives and members of the teaching staffs of educational institutions. A few additional States cover some employment by nonprofit organizations. Many States have contemplated coverage extension and would automatically cover additional occupations if and when the Federal act is extended.

In an average week during the year ended June 30, 1948, the total labor force contained 62 million persons, of whom 2.1 million were unemployed and 59.9 million were employed. The employed labor force comprised 12.8 million self-employed persons and unpaid family workers and 47.1 million employees. About 70 percent of the employees, or 32.9 million of the 47.1 million, were covered by some unemployment insurance program. About 14.2 million employees, or 30 percent of those employed by others, were in employments which carried no form of unemployment insurance protection. The following table shows the distribution of the total labor force by coverage status:<sup>3</sup>

TABLE B.—Total labor force by coverage status in an average week of year ended June 30, 1948

	<i>Persons in millions</i>
Total labor force.....	62.0
Unemployed.....	2.1
Employed, total.....	59.9
Self-employed and unpaid family workers.....	12.8
Farm operators and unpaid family workers.....	6.3
Urban self-employed and unpaid family workers.....	6.5
Employed by others.....	47.1
Covered by unemployment insurance.....	32.9
State laws.....	31.3
Federal program for railroad workers.....	1.6
Not covered by unemployment insurance.....	14.2
Small firms.....	3.4
Employees of nonprofit organizations.....	.9
Federal employees.....	1.7
Armed forces.....	1.3
Agricultural workers.....	1.7
Domestic workers in private homes.....	1.7
Employees of State and local governments.....	3.5

<sup>3</sup> Data on labor force, unemployed and total employed, from Monthly Report on the Labor Force, Bureau of the Census; employment covered by unemployment insurance, estimated by the Bureau of Employment Security; employment not covered by unemployment insurance, from Bureau of the Census, adjusted by Bureaus of Old-Age and Survivors Insurance and Employment Security.



Some involuntarily unemployed persons will probably continue to be outside the scope of unemployment insurance even if "universal coverage" is achieved. Those seeking jobs for the first time or after a long absence from the labor market form one such group. Another is made up of those who are intermittently in and out of the labor market, but never in for very extended periods. Persons formerly dependent on self-employment but now, for one reason or another, seeking work as employees are a third group. It is probably not feasible to cover the self-employed against the risk of losing their self-employment, for it would be extremely difficult to determine when a self-employed person becomes unemployed. If his business declined gradually, it would be almost impossible to determine at what point he actually became available for employment by another. A further difficult problem would be to determine whether his unemployment was involuntary or merely the result of his decision to give up his business.

The Council's goal for coverage in unemployment insurance is the protection of all persons who work for others and have a recent record of depending on wages for a significant part of their support. This goal must be obtained gradually. The Council believes that the Federal Government cannot reasonably require the States to cover all workers immediately. The Council hopes, however, that some of the States will take advantage of the opportunity to assume leadership in extending coverage to domestic workers in private homes and to a larger part of farm employment than we believe should be covered immediately under the Federal act. The State-Federal program permits States wishing to make progressive changes in the program to take such steps before other States are willing to do so.

If the old-age and survivors insurance system is extended to virtually all who work, as recommended by the Council in its first report,<sup>4</sup> the resulting experience should be available for solution of the reporting problems connected with the extension of unemployment insurance to agricultural and domestic workers. The Council believes that this experience should be made available to the States and that the wage reports obtained under old-age and survivors insurance should be offered to the States on a cost basis.

### ***Benefit Financing Designed To Encourage the Adoption of Adequate Benefit Provisions***

The Council believes that liberalization of the benefit, duration, and eligibility conditions in the State laws is generally needed. Unemployment-insurance payments should be as high a proportion of wage loss caused by unemployment as is practicable without inducing people to prefer idleness to work. The higher the ratio of unemployment benefits to wage loss caused by unemployment, the more effectively unemployment insurance limits the tendency for the reduced purchasing power of unemployed persons to create more unemployment. Liberalization of unemployment compensation should take the form of (1) more liberal eligibility requirements; (2) higher benefits in relation to wages; and (3) longer duration of benefit payments.

<sup>4</sup> See p. 6.



Considerable progress has been made in the last 12 years in liberalizing benefit provisions in the State laws. Today, for example, 40 States pay benefits for 20 weeks or more (table 7, appendix IV-E), while in 1937 there were only 5 States which provided for duration of 20 weeks or more; in 1948 there are 41 States which pay a maximum weekly benefit of \$20 or more (table 5, appendix IV-E), while in 1937 there were no such States. To some extent these gains have been limited by stricter eligibility requirements and despite the progress made in liberalizing unemployment insurance programs, it is estimated that approximately 27 percent of the beneficiaries in 1948 exhausted their benefit rights while still unemployed. Benefit amounts are generally still too low in relation to wages. Satisfactory estimates of the fraction of wage loss caused by the unemployment of covered workers that is compensated by unemployment benefits are not available, but rough calculations indicate that it is probably not more than 25 percent. As a result, unemployment compensation as it is today would have a very limited value in checking the cumulative increase of unemployment.

One way of encouraging liberalization of unemployment compensation would be to impose Federal standards for eligibility, duration, and benefit amount. The Council has carefully considered such standards and has decided not to recommend them. Such an approach seems to the majority of the Council to be unduly complicated as well as inappropriate in a State-Federal system. The Council believes that the best way to encourage the liberalization of unemployment compensation is to remove, or at least greatly diminish, the incentive which States now have to reduce their unemployment insurance contribution rates.

The Federal Unemployment Tax Act was passed, in part, to equalize the tax burden on employers regardless of the State in which they did business. Before the Federal tax was imposed, State legislatures were reluctant to establish unemployment compensation systems because of the fear of placing local employers at a disadvantage in competing with employers in States which did not require unemployment contributions.

The objective of eliminating interstate competition has been only partially realized and a strong incentive to reduction of contribution rates remains. Since the Federal tax rate of 3 percent may be offset up to 90 percent not only by actual payments to a State unemployment insurance system, but also by credits for experience rating, the tax burden on employers is allowed to vary considerably from State to State (table 10, appendix IV-E).

All States now have some form of experience rating. This fact, however, does not necessarily reflect their belief in the efficacy of experience rating as a device for inducing employers to regularize employment. Under the Federal act, experience rating is the only way that State contribution rates can be reduced below 2.7 percent (90 percent of 3 percent), and since in all likelihood no State would need such a high rate even for a greatly liberalized benefit system, the States have adopted experience rating as a rate-reduction device.

Unfortunately, the present law places no floor under rate reduction through experience rating. The contribution rate may be set at zero for a large group of employers, and the average for the whole State

may drop to very low levels. In the year 1948, 15 States had average rates of 1 percent or less (table 10, appendix IV-E). While the Federal law set rates higher than now seem necessary, many States have gone to the other extreme and are collecting contributions which in all probability are considerably below the average rate necessary to finance an adequate system of benefits over the next 10 years, even if their existing reserves in the unemployment trust fund are utilized extensively. Now, in a period of full employment, rates should certainly be at least as high as the average rate which will be needed over the next 10 years. Employers can now afford to pay higher rates and, on general economic grounds, rates should not be stepped up when unemployment is on the increase.

The Council is concerned that, under present arrangements, contribution rates will tend to become inadequate in more and more States. Employers are, of course, interested in rate reductions, and, since they pay the full cost of the present system, their wishes have considerable weight with legislatures and the public. Under present conditions, any proposal for more liberal benefits must be weighed against the cost to the employer and his tax position in relation to employers in other States.

The Council proposes two remedies for this situation: (1) The equal sharing of costs by employer and employee, and (2) the imposition of a Federal minimum for the State contribution rate, so that the rate will not be allowed to fall below a point which will be sufficient to pay adequate benefits in the great majority of States.

The Council believes that the proposed minimum rate, greatly reducing interstate competition for rate reduction and providing adequate funds for the majority of State systems, would result in considerable liberalization of benefit provisions.

Under such a plan there would no longer be strong inducements for a State to keep benefits below a reasonable amount. Low benefits would not hold out the possibility of lower contributions as they do now, but would merely result in an accumulation of ever-larger reserves.

#### ***Developing a More Rational Relationship Between Contribution Rates and Cyclical Movements of Business***

A minimum contribution rate would also go far toward promoting a more rational relationship between the rate of contribution and the cyclical movements of business. In most States, experience rating, at least as practiced thus far, means that a favorable period of employment reduces the ratio of the employer's contributions to his pay rolls, while an unfavorable period of employment increases this ratio. Some types of experience rating create a closer relationship than others between recent changes in the volume of employment and the contribution rate, but all types—in greater or lesser degree—tend to vary the contribution rate inversely with the volume of employment.

The tendency for the rate of unemployment contributions to rise as employment decreases can have serious consequences for the economy. For example, today when employment is high and the demand for goods urgent, many employers are paying contributions at a lower rate than they can expect to pay, on an average, over a period of years. If business and employment were to decline and if unemployment were to rise, these employers would have to contribute at

higher rates, at the very time when prices were falling, when business profits were diminishing, and when business concerns were having increasing difficulty in meeting their obligations.

Under the Council's proposal for a minimum contribution rate, this tendency would be substantially reduced in States which retain experience rating. The minimum rate would reduce the possible range by requiring States to charge more than they might otherwise charge in periods of full employment, thus reducing their need to raise rates in periods of increasing unemployment. In the majority of States, the minimum rates will be sufficient for an adequate system of benefits and presumably would be the rate charged all employers and employees at all times.

The Council believes that it would be quite unfortunate if a rise in unemployment were to result in increasing the contribution rate when markets are falling. The Council has therefore proposed, in addition, a Federal loan fund, so that, if necessary, a State may borrow rather than increase the contribution rates while unemployment is rising. The Federal loan fund would make it possible for States to pay more liberal benefits with a given contribution rate, but neither the loan fund nor the Federal minimum rate would relieve a State from considering solvency problems in the light of its own contribution rate, reserve funds, and unemployment experience.

### ***Setting the Minimum Contribution Rate***

The Council has proposed a Federal tax rate of 0.75 percent of covered wages payable by employers and 0.75 percent payable by employees, with a credit up to 80 percent for contributions paid into a State unemployment fund. This proposal would result in a minimum State contribution at the combined rate of 1.2 percent.

Appendix IV-A discusses in detail the method of arriving at this minimum rate. In general, it was necessary to assume certain illustrative benefit plans as "adequate" and then to estimate the cost of such plans in the various States. These costs were estimated under two widely differing hypothetical sets of economic conditions for the next 10 years, and the actual cost was assumed to fall within the resulting range.

The Council emphasizes the difficulties of estimating the costs of unemployment insurance. No one can predict with assurance the pattern of employment and unemployment over even as brief a period as the next 10 years. Unemployment insurance has certain self-limiting factors, however, which reduce the effect of large-scale unemployment on costs. The program, in the first place, is not designed to compensate for long-term unemployment, and the eligibility requirements also serve to reduce the liability of the system during a depression. We believe, therefore, in spite of the uncertainty of the economic assumptions, that our estimates provide a sufficient basis for establishing minimum rates on a national basis.

A minimum rate which will adequately finance a given level of benefits in some States is bound to be too low in others, while some States will be able to finance more liberal benefits at the same rate. In selecting a minimum rate to recommend, therefore, the Council had to decide whether to recommend (1) a rate that would be high enough to finance an "adequate" system of benefits in all States but would be higher than necessary in most, (2) a rate that would be just



sufficient to supply an adequate level of benefits in the States with the lowest costs but would be too low for most States, or (3) a rate that falls between these two extremes and is about right for the majority of States.

The Council has decided in favor of the third of these approaches; it is therefore necessary to emphasize that the rate should be thought of strictly as a minimum rate and that several States will need to charge higher rates to support an adequate system of benefits. According to our estimates based on past benefit experience, the minimum rate of 1.2 percent would be applicable to at least 30 States within a relatively narrow range of adjustment in benefits or contributions under all of the economic and benefit assumptions used. Contributions in 5 States would undoubtedly have to be higher to support a benefit structure that could be considered adequate, and the past benefit experience of 3 others indicates costs so low that reserves would increase under even more pessimistic assumptions than 2 to 10 million unemployed. The 1.2 percent rate is reasonably applicable to various States among the remaining 13 depending on which set of assumptions is used and how large a reserve is assumed to be desirable at the end of the 10-year cycle.

In recommending a combined minimum contribution rate of 1.2 percent, the Council has assumed that in meeting benefit costs most States during the next 10 years will utilize a portion of their currently large reserves as well as contributions.

### ***Promoting Greater Employee and Citizen Participation***

The Council is impressed by evidence that, in general, the workers covered by unemployment-insurance laws lack an adequate sense of participating in the programs. Their failure to concern themselves with unemployment insurance may in part be the cause of the unduly strict eligibility requirements and disqualification provisions in some States. The Council finds several reasons for this lack of a sense of participation. One is probably the fact that the volume of unemployment during the last few years has been very small and jobs have usually been easy to obtain. Another is the fact that since the payroll contribution is paid solely by the employer, the employee does not have the sense of making a direct contribution each week to his protection against unemployment.

The Council believes that it is vitally important to have both employees and managements take a lively interest in the system of unemployment compensation and feel keenly concerned about providing the best possible administration and adequate benefits. Only keen interest on the part of the covered employees and managements will keep the unemployment compensation system adjusted to changing conditions and will assure the best possible administration. To this end, the Council proposes that employees contribute as they do for old-age and survivors insurance.

The Council also recommends that advisory councils composed of representatives of management, employees, and the general public be established and encouraged to assume an active role in advising on the formulation of legislative and administrative policy. The Council believes that these three groups must be kept fully informed and abreast of current developments and that advisory councils provide one way of accomplishing that purpose.



A Federal Advisory Council on Employment Security has recently been established. Forty-five States provide for State-wide councils with equal representation of labor and management groups and all but one provide for one or more public members. In 41 States these councils are mandatory and in 4 permissive; in over half of these States, the administrative agency appoints the councils; in less than half, the governor; and in 3, the governor on the recommendation of the State agency. In several States, such as New York, Connecticut, Massachusetts, Illinois, Wisconsin, and Utah, the councils have met frequently and played an important role, but in some others they are inactive. State advisory councils on employment security should be encouraged to assume an active role in the program.

### ***Promoting Improved Administration***

Efficient and equitable administration is of the utmost importance in unemployment insurance, since a large number of administrative decisions must be made continually and rapidly to determine if a person is eligible for benefits. The need for high quality in administration is most apparent in those aspects of the program which involve the determination of current eligibility for benefits and direct contact with claimants. In these aspects of the program, efficient procedures for claims taking, interviewing, and reconsidering claims and appeals are essential to adequate fact finding and correct determination of rights to benefits, a determination that assures both full and prompt payment of benefits to claimants entitled to them and denial of benefits to those who are not eligible.

The Council recognizes that responsibility for the fair and efficient administration of the unemployment-insurance programs is primarily the responsibility of each State. The quality of administration will necessarily depend in large part on the caliber of the personnel selected to do the State job. There can be no substitute for a career service with high standards of job performance and careful training for the complicated task of administering unemployment insurance. The Federal Government, however, has an important role in administration in enforcing minimum standards and in providing administrative funds.

There is considerable evidence to indicate that the funds supplied for administration in the past have not been sufficient to support the most efficient kind of administration. The Council believes further that the present arrangements for financing the administration of unemployment insurance are unduly rigid and do not give the State agencies sufficient opportunity to experiment in improving administration. The Council, therefore, recommends changes in the methods of financing administration which will provide additional funds for State administration of unemployment insurance. These funds would enable some States to pioneer in administration and do more than the minimum which the Federal Government is willing to approve as necessary for all States. The purpose can be accomplished by providing that some funds which could be used for administration be automatically assigned to the States. Because of great variation in work loads depending on the level of unemployment, a large contingency fund should be authorized in addition to the regular appropriations to the States and the Social Security Administration.

Although the Federal law provides specific authority for requiring "such methods of administration as are reasonably calculated to insure the full payment of compensation when due," equally specific authority is not given to require methods that will prevent improper payments. The Council has proposed that this situation be corrected.

The Federal Government has a particular responsibility for the protection of employees who move from State to State. In both war and peace, it is important that people should be free to move and that those who move should not be discriminated against either in regard to their benefit rights or their right to prompt payment. The Council proposes the establishment of Federal provisions to assure the coordination of the individual State laws in such cases.

### ***Disqualifications***

The Council believes that the Federal interest requires the establishment of a standard on disqualification provisions. In 22 States employees who are disqualified not only are denied benefits for unemployment immediately resulting from the voluntary quit, refusal of suitable work, or discharge for misconduct, but also lose accumulated benefit rights which would otherwise be available to them if they are subsequently employed and suffer a second spell of unemployment. The Council can see no justification for these punitive provisions in a social-insurance program and recommends that they be prohibited. Federal action is apparently needed to correct this situation, since the number of States with such provisions has been increasing. In 1937, 7 States reduced or canceled benefit rights for causes other than fraud or misrepresentation; in 1940, 12; and in 1948, 22.

The Council also believes that the postponement of benefits as the result of a disqualification should be for a limited period only and recommends a period of 6 weeks as the maximum. This is probably the longest period during which it is reasonable to presume that the original disqualifying act continues to be the main cause of unemployment. The Federal standard should also prohibit interpretations of "misconduct" which tend toward making inability to do the work a basis for a finding of misconduct.

### ***Study of Supplementary Plans***

The State-Federal system of unemployment insurance should pay benefits of sufficient duration to permit most covered workers in normal times to find suitable employment before their benefit rights are exhausted. Furthermore, the Council has recommended that the State-Federal public-assistance program be strengthened to meet more adequately the needs of unemployed workers ineligible for insurance benefits or with inadequate insurance rights.<sup>5</sup>

These dual provisions for the unemployed through the State-Federal programs would suffice, the Council believes, unless the country is again plunged into a period of severe economic distress. In that event, additional Federal action would clearly be needed for the relief of the unemployed. A depression has an uneven impact upon different cities and regions, and many States and localities are not capable of meeting the greatly increased expenditures necessitated by mass unemploy-

<sup>5</sup> Recommendation 2 in the public assistance report provides for Federal grants for "general assistance." See p. 108.

ment. In such a period only the Federal Government has sufficient credit and sufficiently broad eventual tax resources to meet the full need.

The Council has not been able to make a thorough study of the alternative lines of action open to the Federal Government for providing income maintenance for the unemployed in such a situation and has therefore made no specific recommendations on this point. We recommend, however, that the Congress should direct the Federal Security Agency to study in consultation with other interested agencies various methods for providing income security for workers who do not have private or public employment and to make specific proposals for putting the best methods into effect.

#### ***Temporary Disability Insurance***

The Council has also been unable to devote the time necessary for making policy decisions in the field of temporary disability. We have included in this report, however, a section which discusses the need for protection against wage loss due to illness and the methods that have been suggested by various groups to provide this protection.

#### ***Importance of a Broad Informational Program***

No social-security program can be effective unless those who are entitled to participate know their rights and obligations. A program of public information is particularly important in unemployment insurance. In this program, with its necessarily somewhat complicated provisions, it is of great importance that all claimants and workers understand the principles of the program and the specific provisions of law. We believe that much remains to be done to develop an informed public through informational programs. The addition of an employee contribution and the greater use of advisory councils will also contribute to this end.



## RECOMMENDATIONS ON COVERAGE

### 1. Employees of Small Firms

*The size-of-firm limitation on coverage in the Federal Unemployment Tax Act should be removed, and employees of small firms should be protected under unemployment insurance just as they are now protected under old-age and survivors insurance*

In an average week of the year ended June 30, 1948, an estimated 3.4 million persons were excluded from unemployment insurance coverage under State laws because they were working for small firms. The need of these employees for unemployment insurance has been recognized from the beginning of the program. The size-of-firm restriction in the unemployment insurance titles of the original Social Security Act, limiting tax liability to employers with eight or more employees in each of 20 weeks during the year, was adopted as a temporary provision to simplify administration in the early years of the program. Experience under the old-age and survivors insurance program and under the unemployment insurance laws of 17 States, including such major industrial States as Pennsylvania, California, and Massachusetts, however, has now demonstrated the administrative feasibility of collecting contributions and wage records from small firms.

In 10 jurisdictions with widely differing economic characteristics—Arkansas, Delaware, District of Columbia, Hawaii, Idaho, Minnesota, Montana, Nevada, Pennsylvania, and Wyoming—employees of small firms have been covered since 1937. No serious administrative difficulties have been experienced. The seven additional States which now cover employers of one or more persons have also found such coverage to be administratively feasible. In fact, the administrative advantages of extension of coverage to small firms are probably greater than the administrative difficulties. For example, with the size-of-firm restriction removed, the State no longer faces the need for liability audits, or for questioning the employer about exact pay-roll counts. Some States have also found that having the same coverage as under old-age and survivors insurance facilitates policing tax liability by clearance with the Federal collector of internal revenue.<sup>6</sup>

The number of workers excluded from the Federal Unemployment Tax Act in 1948 was substantially higher than the 3.4 million excluded under State laws, because only 22 States restricted coverage in that year to persons who worked for firms employing 8 or more workers. Of the other 29 States, 2 covered those working for firms employing 6 or more; 8 covered those working for firms with 4 or more; 2 covered those working for firms with 3 or more; while 17 covered those working for firms employing 1 or more. On the basis of 1946 data, the number of workers with wage credits under State unemployment insurance

<sup>6</sup> Not all these 17 States cover employers of 1 or more at any time as in old-age and survivors insurance; in 6 States coverage is based solely on size of pay roll in a specified period; in 5 States employment must extend for a specified period.



laws would be larger by about 8.2 percent if the size-of-firm exclusion were removed. In the 22 States which retain the limitation in the Federal Unemployment Tax Act, the percentage increase in the number of workers with unemployment insurance wage credits would range from 11.6 percent in North Carolina to 35.1 percent in North Dakota, and would be more than 15 percent in half these States. Benefit rights of many persons who work for more than one employer would be greater because, in determining their rights, wages earned in employment for small firms would not be ignored as at present, but would be added to wages earned with large firms.

Twenty-nine State laws already contain provisions which will automatically broaden their coverage to the extent that the Federal size-of-firm limitation is reduced. (See table 2, appendix IV-E, for size-of-firm restrictions in State laws.)

## 2. Employees of Nonprofit Organizations

*The Federal Unemployment Tax Act should be broadened to include employment by all nonprofit organizations, except that services performed by clergymen and members of religious orders should remain excluded.<sup>1</sup> The exclusion of domestic workers in college clubs, fraternities, and sororities by the 1939 amendments to the Federal Unemployment Tax Act should be repealed so that these workers will again be protected under all State laws*

This proposal would broaden the coverage of unemployment insurance by bringing in approximately 1 million workers now excluded from protection because they are employed by nonprofit organizations. Almost one-half are in the service of charitable organizations, one-fourth are in educational institutions, and another one-fourth are in religious institutions.

Most State laws have followed the nonprofit exclusion in the Federal Unemployment Tax Act, but a few States already cover some workers in nonprofit organizations. Hawaii's exclusion applies only to service performed by members of religious orders or ministers of the Gospel. In Idaho and Oklahoma the exclusion does not apply to scientific or literary organizations; Indiana does not exclude service of a commercial character commonly performed for profit even though performed for a nonprofit organization; and New York does not exclude humane societies or building-trade employees of nonprofit organizations. Tennessee now limits the exclusion to professors, instructors, teachers, and executives in educational institutions, priests, clergymen, pastors, church musicians, singers, and members of choirs.

The extension of coverage to employees of nonprofit organizations presents no serious administrative difficulties; and the need of the great majority of these workers for unemployment insurance protection is clear. A very large proportion of the employees in charitable institutions work in hospitals which have relatively high employment turnover rates. Educational institutions—including not only schools but also private libraries and miscellaneous research agencies and civic groups—have considerable turn-over among younger instructors and custodial staffs, and secular employees of religious institutions also

<sup>1</sup> Two members of the Council favor extension of coverage to the nonprofit group on an elective basis. In substantial part, the reasons which they gave in their dissent in pt. I are applicable here (see appendix I-E, p. 63).

suffer from unemployment. Equity and adequacy of protection can be assured only when all individuals similarly situated are similarly protected. The laundress and the cook in a hospital have the same need for protection as those who work in a hotel; there is no essential difference between the janitor in a private school and the one in a retail store, or the elevator operator in a YMCA and the one in a glass factory.

Although some categories of workers for nonprofit organizations doubtless have a high degree of security in employment—as is also true of some in private profit-making institutions—the Council believes that this fact does not justify their exclusion. In a social program such as this, the indirect benefits to all justify exacting a minimum contribution even from those who are in relatively little danger of becoming unemployed.

The Council is aware of the difficulties of adequately financing nonprofit organizations and would be reluctant to have their costs increased for any less compelling reason than the protection of their employees. These costs should be kept at a minimum. Under the Council's proposals, the employers' contribution rate required by the Federal Government would be 0.75 percent of pay roll (recommendation 9, p. 166) regardless of the length of time the employer is subject to the act. At present the Federal Government requires a rate of 3 percent for an employer's first 3 years under the program. Furthermore, under recommendation 11, if a State wished to charge more than the minimum, it would, nevertheless, be prohibited from charging a rate for newly covered and newly formed firms which exceeded the average rate for all employers in the State.

With other college employees covered, there seems to be no reason to continue the exclusion of domestic workers in college clubs, fraternities, and sororities. These workers were protected until 1940 and, in the Council's opinion, protection should be restored to them.

The Council believes, however, that the present exclusion of services for organizations exempt from Federal income tax when the remuneration does not exceed \$45 per quarter should be continued. This exclusion would avoid much of the administrative difficulty of attempting to cover such persons as church singers and musicians and part-time semivolunteer workers for church and welfare organizations who, in any event, would usually not earn enough from the work to qualify for benefits.

The original exclusion of nonprofit employment was not based on the conviction that employees of nonprofit institutions needed protection less than others; it resulted from the fear of some institutions that they might lose their tax-exempt status, and the fear of some religious groups that they might become subject to some form of Government control. The Council, in considering the exemption of the same group from old-age and survivors insurance, stated its belief that extension of coverage under social insurance would not lead to the results feared. The statement made in connection with old-age and survivors insurance is equally applicable to unemployment insurance:

The members of the Council are unanimous in believing that freedom of religion should be protected, but we are convinced that a tax on employment—a function which employers in the nonprofit area have in common with all others—for the special purpose of giving equal social insurance protection to all employees

would in no way imply or lead to Government control over the performance of the religious function. To make it absolutely clear that the legislation is not concerned with the performance of religious duties, we recommend that persons directly engaged in religious duties, such as clergymen and members of religious orders, remain exempt from coverage under the program. Our recommendation would extend coverage only to lay personnel who perform services which are secular in character.

We also believe that public encouragement of religious, charitable, scientific, and educational enterprise should be continued through preservation of the traditional tax-exempt status of such institutions. That encouragement, however, would be better expressed, we believe, by extending social insurance protection to their employees than by continuing to deny it. Employers in the nonprofit field are at a considerable disadvantage in the labor market because they cannot offer retirement and survivorship protection, hence, coverage exclusion handicaps these organizations and fails to promote their services to the community.

Religious, charitable, scientific, and educational organizations, which have been traditionally exempt from taxation on income and property dedicated to the purposes which the community wishes to promote, can and should continue to enjoy their traditional tax exemption when the old-age and survivors insurance program is extended to their employees. It has long been customary to require such institutions to pay certain types of special assessments for property improvement, to pay Federal excise taxes, and in some States to pay the local and State taxes on commodities which they use. Even in some States with exclusive State funds, they have been required to carry workmen's compensation insurance. The use of Government compulsion in connection with these special taxes and levies has not led to taxation on the property and general income of these institutions. Moreover, many organizations such as trade-unions, trade associations, fraternal and beneficial organizations, and the like, which are exempt from the Federal income tax and certain other taxes, pay the old-age and survivors insurance contribution without appearing to be in danger of losing their exemption under other laws.<sup>8</sup>

The State unemployment insurance laws levy a special-purpose tax on the function of employment. The proceeds are automatically deposited in a trust fund dedicated to the payment of benefits to covered workers. Under recommendation 13, p. 172, the proceeds of the Federal Unemployment Tax Act will also be dedicated to unemployment insurance. Unemployment insurance taxes are a special kind of tax which should not serve as a precedent for other forms of taxation any more than would a special assessment levied by a local government. We believe, moreover, that Congress should indicate its intent that the taxation on nonprofit organizations for social insurance in no way implies a departure from the principle of promoting the function of these organizations through tax exemption.

### 3. Federal Civilian Employees

*Employees of the Federal Government and its instrumentalities should receive unemployment benefits through the State unemployment insurance agencies in accordance with the provisions of the State unemployment insurance laws. The States should be reimbursed for the amounts actually paid in benefits based on Federal employment. If there is employment under both the State system and for the Federal Government during the base period, the wage credits should be combined and the States should be reimbursed in the proportion which the amount of Federal employment or wages in the base period bears to the total employment or wages in the base period. The special provisions for Federally em-*

<sup>8</sup> See pp. 19-20.



*ployed maritime workers should be extended until this recommendation for covering all Federal employees becomes effective*<sup>9</sup>

The Council believes that the approximately 1.7 million employees of the Federal Government, now without unemployment insurance protection, should be covered immediately. A civil-service system in itself provides no guaranty against unemployment; separations among civil-service employees in recent years (1944-47) have ranged from 36 to 55 percent annually, and on the average somewhat more than half have been involuntary. Although these rates may be somewhat higher than may be expected in the future, they are nevertheless an indication that Federal workers are subject to a considerable amount of involuntary unemployment. The abolition of agencies or functions, reorganization of agencies, and reduction in appropriations, as well as the discharge of temporary or probational employees, are all common causes of unemployment among Federal workers, and indicate a real need for unemployment insurance.

In the Council's opinion, the Federal Government should offer its employees the same protection that it requires employers to provide in private industry. By so doing, the Government will not only fulfill its obligation as a good employer, but will also cease to handicap itself in a competitive labor market by offering less income protection against unemployment than private industries offer.

In recommending protection under unemployment insurance, the Council has considered whether other programs give the Federal worker sufficient protection against the risk of losing his job. It might be argued that the refunds paid under the Civil Service Retirement Act to those who have served less than 5 years in the Federal Government are a substitute for unemployment insurance. The Council is not of that opinion. Refunds to these short-time workers are usually very small and, in any event, represent withheld savings. Under State unemployment insurance laws for commercial and industrial workers, similar payments would not generally be considered in determining whether benefits are payable. While Federal employees with service of 5 to 20 years may, if they desire, receive substantial refunds, the Council believes that encouragement of such withdrawals would be unsound social policy. It would weaken the protection these workers had accumulated against the risk of old age to give them protection against the risk of unemployment. The Council's recommendation for the extension of unemployment insurance to Federal workers would make it unnecessary for them to cash in their retirement benefit rights to meet the immediate and pressing expenses of unemployment.

Similar considerations apply to an evaluation of accrued annual leave as a substitute for unemployment insurance. The annual-leave system is designed to promote the efficiency of the service, and Federal employees are expected to use the leave privilege as they are able. It would be unsound policy to encourage persons to forego vacations so that their accumulated annual leave will afford protection against the risk of unemployment.

In the Council's opinion, the extension of unemployment insurance under the State programs on a reimbursable basis is the most effective

<sup>9</sup> Two members of the Council favor protection of Federal employees under a Federal system with benefit and eligibility conditions established by Federal law and administered by the State organizations on a reimbursable basis.



and economical way of providing the protection needed by Federal workers. Coverage under the State programs will avoid treating Federal employees as a distinctive class and will give the same degree of protection to all workers seeking employment in the same localities. Employees of the same Federal agency will, of course, have differing benefit rights, depending on the law of the State in which they file their claims, just as is now true of persons employed by private firms with branches in more than one State. Such differences are inherent in a State-operated system.

Federal employment should be combined with employment covered under the State law to determine eligibility and benefit rights. The Federal Government should reimburse the State in the proportion which the amount of Federal employment or wages in the base period bears to the total employment or wages in the base period. Administrative expenses incurred by the States for benefits to Federal employees should be covered by the regular administrative grants.<sup>10</sup>

To reduce to a minimum the volume of interstate claims which would result from this proposal, the Council recommends that the State law applied to a Federal worker's claim be either the law of the State of his residence at the time of filing or the State in which he was last employed—the choice to be made by the employee. Federal workers who have served in foreign countries will thus be able to claim benefits based on the law of the State in which they are currently residing.

The Council recommends that benefits to Government workers who become unemployed be financed by direct reimbursement of the State agencies making these payments, rather than by State-imposed taxes. This is the plan now used for paying unemployment-insurance benefits for former employees of the War Shipping Administration, and it seems more practical than any other for those who have been employed by the Federal Government in more than one State or have been employed abroad. Furthermore, if the Federal Government were to pay "contributions," like any other employer, either the State system would bear part of the load for the Federal Government or the Federal Government would pay part of the costs of unemployment for all workers. The Council believes that the Federal Government should not use a method of that type to support State unemployment-insurance funds. Federal employees should contribute at the minimum rate required by the Federal Government for all covered employees (recommendation 7, p. 163). The contribution should be collected by the Federal Government and used in the reimbursement of the States. Additional amounts necessary to cover the cost of benefits actually paid should be appropriated from the general revenues of the Federal Treasury.

This recommendation would require the Social Security Administration to enter into agreements with State agencies to handle the claims of Federal workers. If such an agreement is not reached in a State, the Social Security Administration should be empowered to pay the benefits in that State on the same terms as if the agreement were in effect. In working out the agreement, the States should permit the Federal Government to limit its wage reporting to wage-and-separation reports for individuals who are separated or who apply for

<sup>10</sup> It would be desirable for Congress to add to the total funds dedicated to unemployment insurance and available for administration (0.3 percent of covered pay rolls, see recommendation 13, p. 172) by appropriating an additional amount estimated to cover the costs of administering the program for Federal employees. It does not seem practicable to make special grants to the individual States covering these costs alone.

benefits. A similar right is now granted to large employers by some States, and Wisconsin and Michigan use this method for all employers.

In 1946, the Federal Unemployment Tax Act was amended to permit State laws to cover seamen on private vessels and to provide a temporary reconversion unemployment benefit for seamen employed by the United States Maritime Commission. Under the present shipping situation, the Maritime Commission will operate longer than anticipated. The special provisions for federally employed maritime workers should therefore be extended until this recommendation for covering all Federal employees becomes effective. Thereafter, the special provisions for maritime workers should be terminated.

#### 4. Members of the Armed Forces

*Members of the armed forces who do not come under the servicemen's readjustment-allowance program should be protected by unemployment insurance*

At present, members of the armed forces with service between September 16, 1940, and July 25, 1947, are protected by the Federal servicemen's readjustment-allowance program, under which unemployed servicemen may receive a flat weekly benefit of \$20 for as many as 52 weeks. This protection will expire for most servicemen on July 25, 1949.<sup>11</sup> The benefits are administered by the State agencies responsible for the administration of the State unemployment-insurance laws, and the law of the State in which the claim is taken governs the criteria used for determining suitable work.

The servicemen's readjustment-allowance program was designed for those who served in the armed forces in time of war. In our opinion, many of its provisions are not appropriate to peacetime service in the Army and the Navy. The flat duration of 52 weeks, for example, now permitted for World War II veterans, seems inappropriate for persons serving only the 21-month period required under the current draft. Yet, those who serve in the armed forces in peacetime, like any other employed group, need protection against the risk of unemployment. Some ex-servicemen will readily find a place in industry, but others will need a longer period in which to get jobs. Unemployment insurance is the most satisfactory way of giving the needed protection. Unlike a dismissal payment which would be the same for all, the insurance program pays benefits only as long as the man is unemployed, thus using available funds where they are most needed.

The Council believes, therefore, that protection against the risk of unemployment should be extended on a permanent basis to those who serve in the armed forces, and that the insurance program for servicemen should be based on peacetime conditions. As a matter of public policy, service in the armed forces should be made more attractive than it is now. One method would be to grant social-insurance rights for military service just as such rights are granted for employment with private industry. The Council has considered two possible approaches, either of which is satisfactory to the majority of the Council, although some prefer one and some the other. One way of extending unemploy-

<sup>11</sup> Allowances may be claimed for any week ending on or before July 24, 1949, or 2 years after date of discharge, whichever is later (but not later than July 24, 1952), except that persons enlisting or reenlisting in the armed forces between October 6, 1945, and October 5, 1946, under the Armed Forces Voluntary Recruitment Act of 1945, may receive benefits during a limited additional period.

ment-insurance protection to the armed services would be to establish a Federal system which would be administered by the State agencies, following the pattern established by the servicemen's readjustment-allowance program. The Federal act would determine the eligibility conditions, the benefit amount, and the maximum duration, while the States would actually administer the program and apply State law to the determination of suitable work. Under this plan, as under the readjustment-allowance program, the benefit rate would probably be the same for all regardless of previous rank.

The other approach is to treat members of the armed forces as we propose to have all other Federal employees treated (recommendation 3, p. 156). Under this plan State law would determine the eligibility conditions, benefit amount, duration, etc.; benefits would be based on actual wages paid, including the fair value of board and clothing,<sup>12</sup> and would vary with the serviceman's grade. The Federal Government would reimburse the States for unemployment-insurance benefits paid under this program and would pay the cost of administration in the same manner as for other Federal employees.

Under either of these plans, the Council believes, members of the armed services should contribute toward the cost of their protection like other employees (recommendation 7, p. 163). The contributory principle should apply to all, and servicemen should have the same interest and stake in the system as other covered workers.

### 5. Borderline Agricultural Workers

*To afford protection to certain workers excluded by the 1939 amendments to the Federal Unemployment Tax Act, defining agricultural labor, coverage of that act should be extended to services rendered in handling, packing, packaging, and other forms of processing agricultural and horticultural products, unless such services are performed for the owner or tenant of the farm on which the products are raised and he does not employ five or more persons in such activities in each of four calendar weeks during the year. Coverage should also be extended to services now defined as agricultural labor by section 1607 (1) (3) of the Unemployment Tax Act.*

In an average week, approximately 1.7 million individuals are unable to acquire unemployment-insurance protection because they are agricultural workers, and at some time during a year as many as 4.1 million are employed in work defined as agricultural. In the Council's opinion, extension of coverage to these workers under the unemployment-insurance program—the Federal Unemployment Tax Act and State unemployment-insurance laws—is highly desirable. From the viewpoint of the objectives of the program, the agricultural workers' need for protection is unquestionable. Their employment is unstable, and their wages are often too low to permit them to accumulate savings to tide them over periods of unemployment. Moreover, as surveys of the employment history of farm workers show, the number of persons with both farm and nonfarm employment in the course of a year is appreciable. Since much of their nonfarm employment is covered, these workers frequently claim unemployment-insurance benefits. If all their work were covered, a higher proportion of them

<sup>12</sup> The Army estimates board and clothing to be worth \$108 a month at 1948 prices.



would be eligible for benefits, and the benefit rights of those now eligible would be increased.

The Council, however, does not recommend at this time extension of the Federal Unemployment Tax Act to all agricultural employment. Such an extension would in effect require the States to cover all agricultural workers immediately, and the Council recognizes that certain administrative problems connected with extension of coverage to this group would present serious difficulties in some States. While problems of reporting wages and collecting contributions are similar to those in old-age and survivors insurance, unemployment insurance has an even greater need for prompt and accurate reporting. Since unemployment-insurance benefits are usually based on recent wages paid during a relatively short period, rather than a lifetime average, an error or delay in reporting may have a far more serious effect on benefit rights in unemployment insurance than in old-age and survivors insurance.

The Council recommends, however, immediate extension of the Federal Unemployment Tax Act to those persons now excluded by section 1607 (1) (3) and those excluded by section 1607 (1) (4) who are engaged under what are substantially commercial conditions in the handling, grading, storing, packaging, delivery to storage or to market, and other processing of agricultural products. Both of these groups were originally covered under the Federal Unemployment Tax Act and were excluded by the amendments of 1939. The packaging and processing group is made up of some 200,000 to 225,000 persons, many of whom are covered under State, although not Federal, law. For example, Florida covers the grading, packing, packaging, or processing of fresh citrus fruits; and California restricts the agricultural exclusion to services on a farm or in the employ of the owner or tenant of the farm where the materials being processed were produced. A number of States require that the service to be excluded must be for an owner or tenant as an incident to ordinary farming operations. The laws of 32 States, however, follow the Federal definition and exclude nearly all workers engaged in packing and processing agricultural products, other than in commercial canning and freezing.

The Council believes that the continued exclusion of this group by the Federal law is unjustified. These persons frequently work under factory conditions and operate mechanical equipment such as graders or conveyors. Stationary engineers tending steam boilers, box assemblers, truck operators, plant superintendents and department foremen, receiving clerks, box ladders, electricians, and mechanics are excluded, as well as the workers who handle, sort, grade, wash, polish, and pack the fruits and vegetables, and the laborers who keep the packing house in order. The operations which these workers perform are essentially commercial or industrial in character.

The Council believes, on the other hand, that when packing and processing services are not essentially a commercial operation but are performed in the employ of the owner or tenant of a small farm, these services should remain excluded until coverage is extended to all farm workers. The Council recommends that the farmer who does not employ at least five persons in packing and processing work in each of four calendar weeks during the year should not be subject to the act. Services of this nature performed for persons other than the owner



or tenant of the farm growing the products to be processed would be covered without exception.

Section 1607 (1) (3) of the Unemployment Tax Act excludes services performed off the farm in connection with the ginning of cotton; the hatching of poultry; the operation or maintenance of ditches, canals, reservoirs, or waterways used for supplying and storing water for farming purposes; and in connection with the production and harvesting of maple sirup or maple sugar, turpentine, gum resin, and crude gum. These activities are not what one ordinarily means by agricultural labor and, in our opinion, should be covered under the Federal act. The Council believes that the test should be whether the employment is reasonably associated with industry now covered and whether it can be brought under the program without substantial administrative difficulty. If performed on a farm, these activities would ordinarily continue to be excluded by the definitions in sections 1607 (1) (1) or 1607 (1) (2).

The Council hopes that some of the States will take advantage of the opportunity to assume leadership in extending coverage to a larger part of farm employment than we feel should be covered immediately under the Federal act. Under the State-Federal program, States wishing to make progressive changes can take such steps before it seems practical to require such changes in all States. States might experiment with several possible approaches to extending coverage to a part of the group of farm workers. Two approaches which seem to be among the most promising are:

1. Extension of coverage to all those working on farms with more than a given number of workers, for example, four; or
2. Extension of coverage to all employees of farm operators with an annual pay roll in excess of a specified amount.

## 6. Inclusion of Tips in the Definition of Wages

*The definition of wages contained in section 1607 (b) of the Federal Unemployment Tax Act should be amended to specify that such wages shall include all tips or gratuities customarily received by an employee from a customer of an employer*

Tips or gratuities paid directly to an employee by a customer of an employer, but not "accounted for" by the employee to the employer, are not now included in wages as defined under the Federal Unemployment Tax Act. Moreover, relatively few tips are accounted for and subject to the Federal law. As many as 31 States, however, levy unemployment-insurance contributions on tips without differentiating between those accounted for and others. In the absence of an exact reporting by persons receiving tips, most of these States permit employers to report a reasonable estimate of the amount received as tips by their employees. In making such estimates, the employer takes into account the volume of business handled by the employee, the tips reported by other employees, the type of establishment, and other pertinent factors. In many instances, such estimates are made after agreement with the employee. Although the administrative problems connected with the inclusion of tips are not inconsiderable, they are generally being solved satisfactorily and are not substantial enough to justify the continued exclusion of this type of remuneration from the Federal law.

The Council believes that the Federal Unemployment Tax Act should be amended to include all tips in the definition of wages. In the absence of such an amendment, substantial numbers of workers in some States—those employed in restaurants, barber shops, beauty parlors, and the like—are denied the degree of protection they would acquire if their tips and gratuities were included in their wage records. Some workers may fail to qualify for unemployment benefits because, except for tips, they receive inconsequential remuneration. This situation is especially illogical because tips are frequently contemplated in the wage contract, are earned in the service of the employer, and are received for services generally recognized as performed in the interest of the employer.

The Council has recommended identical provisions for old-age and survivors insurance. From an administrative standpoint, it is highly desirable to have an identical tax base in both systems of social insurance. Tips are also included as taxable income under the Federal income-tax law.

While the Council urges that all tips be included for tax and benefit purposes either on an estimated or reported basis, it believes that—if the reporting basis is chosen—the employer should be protected from inaccuracy on the part of his employees. The Council believes that employees should not be allowed to change a previous report on tips when applying for benefits. Otherwise, additional assessments would have to be levied against the employer or benefits would be paid at rates higher than contributions collected would warrant. The Council considers both these results undesirable.

## RECOMMENDATIONS ON BENEFIT FINANCING

### 7. Contributory Principle

*To extend to unemployment insurance the contributory principle now recognized in old-age and survivors insurance, a Federal unemployment tax should be paid by employees as well as employers. Employee contributions to a State unemployment-insurance fund should be allowed to offset the Federal employee tax in the same manner as employer contributions are allowed to offset the Federal tax on employers. The employee tax would be collected by employers and paid by them when they pay their own unemployment tax*

The Council believes that part of the cost of social-insurance programs should be borne directly by those who are the beneficiaries of the program. The employee contribution is a significant factor in public understanding, for it demonstrates the insurance principle and the worker's right to the benefit and clearly differentiates social insurance from relief and assistance. The contributory principle is recognized not only in old-age and survivors insurance program of this country but also in the unemployment-insurance laws of all other countries. It is a cornerstone of social insurance.

The Council recommends the addition of an employee tax in unemployment insurance because of the fundamental concern of employees with the operation of this program. They receive the benefits; they are greatly affected by the administration of the laws; and they have a basic interest in determining legislative policy.

Employee interest in administration would be strengthened by employee sharing in the cost of the program. If they paid part of the cost directly, employees would have an even greater stake than at present in promoting methods of administration which will best assure the full exercise of their rights to benefits and the prompt payment of those benefits. An employee contribution would also stimulate employee interest in the prevention of improper payments, whether due to lax administrative procedures or to fraudulent claims, for they will want to avoid having their contributions dissipated unwisely. Students of British experience cite many instances in which labor representatives were better able to prevent abuses than were employers or officials.

Labor now complains that some State legislatures listen more attentively to employer groups than to those representing employees, because the unemployment-insurance program is considered by many to be financed exclusively by the employers. The employee tax would help put employees on a parity with the employer. On the one hand, if employees pay a part of the cost they will have a stronger voice in determining the amount of benefits and the conditions of eligibility; on the other hand, their direct contribution should make employees more responsible in their demands for higher benefits than if the cost falls on them only indirectly. Under the present arrangement, many employees believe that benefit increases are financed entirely by the employer and they tend therefore to exert their influence mainly toward payment of higher benefits without consideration of costs.

Since some of the employer's tax is shifted to the workers as employees and as consumers anyway, it would be far better to tax workers directly and achieve the advantages to be derived from the recognition of their part in paying the costs of benefits. Under the present law employers can shift at least part of the unemployment taxes to the consumer in higher prices or to the worker in lower wages. In good times, the former is more feasible, while in times of unemployment the latter is more likely to occur.

Only two States, New Jersey and Alabama, now provide for employee contributions to unemployment insurance, although nine States have required such contributions at one time or another. Federal action is needed to extend the contributory principle in unemployment insurance to all States. At the same time section 303 (a) (5) of title III of the Social Security Act should be revised to provide that, after the effective date of a Federal unemployment tax on employees, the employee contributions available for temporary disability benefits should be limited to the amount in excess of the minimum rate required for unemployment insurance. Employee contributions paid into the unemployment trust fund before that effective date would continue to be available for the State's disability-insurance program.

Following the principles of the present State-Federal program, employee contributions to a State unemployment-insurance fund should be allowed as an offset against the Federal employee tax in the same manner as offsets are allowed against the Federal tax on employers. The employee tax would be withheld by the employer from wages and combined with the amount he is required to pay as an employer. Federal employees should contribute at the minimum rate required by the Federal Government for all covered employees but, in accord-



ance with recommendation 3, the contribution would be collected by the Federal Government and used to reimburse the States for benefits actually paid on the basis of wage credits earned from Federal employment.

### 8. Maximum Wage Base

*To take account of increased wage levels and costs of living, and to provide the same wage base for contributions and benefits as that recommended for old-age and survivors insurance, and upper limit on earnings subject to the Federal unemployment tax should be raised from \$3,000 to \$4,200*<sup>13</sup>

A social insurance program must be adjusted periodically to basic economic changes. In a dynamic economy, some provisions which were appropriate when they became effective eventually become outmoded. This is what has happened to the limitation placed on the amount of annual wages subject to social insurance contributions.

In 1939, when the maximum wage base for contributions and benefits was set at \$3,000, nearly 97 percent of all workers in covered employment had wages of less than \$3,000 a year; contributions were thus paid on the full wages of virtually all covered workers. With the general rise in wage levels since 1939, however, the \$3,000 limitation has tended to exclude from taxation part of the wages of a substantial proportion of covered workers. In 1947 about 18 percent of all covered workers had wages exceeding \$3,000, and among workers who were steadily employed throughout the year, from one-fourth to one-third had wages in excess of that amount. When the figures for 1948 are available, these percentages will be even higher.

As wages continue to rise, the \$3,000 limitation excludes a larger and larger proportion of wages from taxation. Thus the system suffers progressive loss of income, which makes it increasingly difficult to finance benefits related to current wages. Furthermore, when the limitation excludes a significant part of the wages, it is a source of inequality in the tax burden, for the ratio of taxes to wages is lower for establishments with high average wages than for those with low wages. In our opinion, the taxation base should be kept broad and the tax rate set lower than would be prudent with a more limited base.

The higher wage base is not only wise for revenue purposes but is also desirable as a base for calculating benefits. In a contributory system, taxes should be paid on all wages which serve as a basis for benefits. It is undesirable, for example, to pay higher benefits to those getting more than \$3,000 than to those at the \$3,000 level without at the same time charging more for the higher benefits. Thus if wages in excess of \$60 a week (approximately \$3,000 a year) are

<sup>13</sup> While the majority of the Council favor increasing the upper limit to \$4,200, some favor keeping the limit at \$3,000 and some favor increasing it to \$4,800. Those who favor the retention of the present tax base feel that adequate benefits can be paid without any change and cite as evidence the benefits already being paid by several States, such as New York and California. An increase in the base would result in an increase in benefits only to those in the upper income group. In the opinion of these members, payment of increased benefits to this group is not consistent with the basic principle of social insurance to provide a basic floor of protection. Those who feel that the change in the top limit of taxable wages should be to \$4,800 rather than \$4,200 accept the reasoning of the majority report, but point out that the consumers' price index has risen by more than 60 percent, so that an income of \$4,800 today has less purchasing power than an income of \$3,000 had in 1939. Hence, raising the tax base and wages credited for benefits to \$4,800 would not be a real increase—it would, in fact, fall short of maintaining the 1939 relationship between the wage base and prices. In substantial part, the reasons which were given by both groups in their dissents in pt. I are applicable here. See appendix I-F, p. 64.)



credited for benefit purposes, the tax base should be similarly increased. To relate benefits to wages for a large proportion of claimants, benefits should be based on wages above this \$60 a week figure. If benefits are to vary with earnings for even as many as three-fourths of the claimants and if workers are to receive as much as 50 percent of earnings, in many States benefits would now have to be based on earnings up to \$70 or \$80 a week. If wages continue to rise, more and more States will be in this position.

The Council believes that a system of differential benefits related to the individual's contribution to production as reflected in his earnings supports general economic incentives and provides more adequate security than does a system which fails to take account of the individual's standard of living. The desire to return to productive work is well protected by a system which relates benefits to the earnings of the individual worker. Such a system permits higher benefits to those who are able to earn more and consequently, while protecting the desire to return to work, compensates for a greater proportion of total wage loss due to unemployment than is possible under a system in which a large proportion or all of the beneficiaries receive the same amount. For these reasons we believe it is important that, in the great majority of cases, benefits should vary with the wages earned by the individual worker and that the system should not become a flat benefit system because of benefit maximums which are too low in relation to current wages.

To take full account of increases in wages and prices, the limitation on taxable wages would have to be raised to somewhat more than \$4,800. The Council, however, recommends that a part of the increase in wages be disregarded by raising the limit to \$4,200 as a conservative adjustment to the rise in wage and price levels which has occurred since the \$3,000 limitation was adopted. The \$4,200 limitation proposed for unemployment insurance is the same as that recommended by the Council for old-age and survivors insurance. For administrative reasons it is desirable to have the same contribution base for both systems.

### 9. Minimum Contribution Rate

*The Federal unemployment tax should be 0.75 percent of covered wages payable by employers and 0.75 percent payable by employees. The taxpayer should be allowed to credit against the Federal tax the amount of contributions paid into a State unemployment fund, but this credit should not exceed 80 percent of the Federal tax. Since no additional credit against the Federal tax should be allowed for experience rating, the States would, in effect, be required to establish a minimum rate of 0.6 percent on employers and 0.6 percent on employees*

The Council believes that Congress should put a floor under State unemployment contribution rates at a point which will allow the majority of States to pay adequate benefits to most unemployed members of the covered labor force for a period sufficient in normal times to cover the duration of their unemployment. Under the present law there is no floor under the rates which States may charge. Credit allowances against the Federal tax are permitted to replace actual tax payments for the full 90 percent offset, as long as the allowances are based

on experience rating. States may thus reduce their contribution rates to a very low average rate and even to zero for some employers. (See table 10, appendix IV-E, for average employer contribution rates 1941-48.)

The present arrangement permits the States to compete in establishing low contribution rates for employers and therefore discourages the adoption of adequate benefit provisions, since proposals to provide more nearly adequate benefits in a given State are weighed against the effect of increased contribution rates on the competitive position of employers in that State. Yet a basic purpose behind the State-Federal tax offset plan adopted in 1935 was to remove interstate competition. Until the passage of the Federal act, the States were reluctant to require unemployment insurance contributions from employers within their boundaries unless other States had similar requirements. The Council's proposed minimum contribution rate is a return to the principle of assuring relative equality among employers in the various States. It will remove an important barrier to the liberalization of benefits by requiring that all covered employers and employees throughout the Nation pay a minimum rate.

Some States will have to charge more than the minimum suggested by the Council if they are to finance an adequate system of benefits; others will be able to pay benefits somewhat higher than the amount used by the Council in deriving the suggested rate. This situation will result from the considerable differences among the States in the size of reserves and in the unemployment rates which may be expected to prevail. Under the Council's recommendation, each State will continue to be responsible for relating its contribution rates to its own benefit payments and reserves. A State could thus impose a higher rate on all employers and all employees, or it could maintain a system of experience rating under which some employers would pay more than the minimum rate.

The Council is aware that some jurisdictions, such as Wisconsin, Hawaii, and the District of Columbia, will have unusually low costs if their past benefit experience can be taken as a reliable guide. Under the minimum tax proposed, these governmental units can perhaps afford to pay more generous benefits than can other jurisdictions. If, in the future, any State with benefits substantially more generous than others continues to build up a reserve, the Congress might consider some adjustment in the minimum rates required of them or allow all or part of the minimum employee contribution in such States to be used for other social insurance purposes. The Council believes that no special plan is needed now to provide for such a contingency, and none may ever be needed.

Appendix IV-A discusses in detail the method of arriving at the minimum rate.<sup>14</sup> In general, it was necessary to assume certain illustrative benefit plans as "adequate" and then to estimate the cost of such plans in the various States. These costs were estimated under two widely differing hypothetical sets of economic conditions for the next 10 years, and the actual cost was assumed to fall within the resulting range.

<sup>14</sup> A comprehensive study of the principles underlying the estimates of unemployment insurance costs has been made by W. S. Woytinsky, formerly principal consulting economist to the Bureau of Employment Security of the Social Security Administration, *Principles of Cost Estimates in Unemployment Insurance*, Government Printing Office, Washington, 1948. This study has been the basis of the cost estimates used by the Council.

Since reserves in most States are now at a high level, we have assumed that a substantial part of the costs of benefits during the next 10 years should be met from these reserves. We have set therefore the minimum contribution rate at a point which will allow most States to pay adequate benefits if they utilize a considerable portion of their reserves. (See table 11, appendix IV-E, for funds available for benefits as of September 30, 1948.)

The present system of State offsets against the Federal tax should be continued, but the percentage should be changed from 90 percent to 80 percent. The employer and employee would thus have to pay a minimum of 0.6 percent each to the State and 0.15 percent to the Federal Government. Thus the present Federal income of 0.3 percent of pay roll would remain unchanged although it would now be paid in equal shares by employer and employee.

### 10. Loan Fund

*The Federal Government should provide loans to a State for the payment of unemployment insurance benefits when a State is in danger of exhausting its reserves and covered unemployment in the State is heavy. The loan should be for a 5-year period and should carry interest at the average yield of all interest-bearing obligations of the Federal Government*

The Council believes that during a period of heavy unemployment, the Federal Government should stand ready to make loans to States whose unemployment trust fund reserves are in danger of being exhausted. In times of relatively light unemployment, a State would be expected to raise its unemployment contribution rate to prevent exhausting its reserve. That remedy would not be justified, however, during a period of heavy unemployment when an increase in the contribution rate would aggravate unemployment and impose hardships on many employers and employees. Equally disastrous in a time of heavy unemployment would be an attempt to preserve solvency by reducing the amount or duration of benefits or by restricting eligibility. The Council believes that present provisions in several State laws which provide for a decrease in benefits or an increase in contribution rates when reserves fall below a given point are contrary to sound policy. To obviate need for such measures, we recommend the establishment of a Federal loan fund.

A State's need for a Federal loan may result from two causes:

1. The contribution rate established by a State may be too low to meet actual costs over the entire 10-year period. Since the volume and incidence of unemployment are difficult to predict and differ from State to State, some States will, through error, probably establish contribution rates too low to finance benefits. If they rely on the minimum rate set by the Federal Government (recommendation 9, p. 166), a few States will almost certainly find the rate too low to support an adequate benefit program over the cycle.

2. Although the rate may be sufficient to support the system over the cycle, the fund may be temporarily exhausted. It is expected that a State will establish a contribution rate designed to cover costs over a relatively long period, such as 10 years. This assumption was the basis used in determining the minimum contribution rate discussed in



recommendation 9, page 166, and appendix IV-A. Such a rate, however, is not expected to provide income equal to outgo during some phases of the business cycle. Thus States with unusually severe fluctuations in the level of employment or with relatively low initial reserves might temporarily lack funds sufficient to meet benefit costs.

If a State's need for the Federal loan results from the situation described under 2, the loan will be self-liquidating, because the State's unemployment contributions will in time yield sufficient revenue to repay the amount borrowed. But if the situation is that described under 1, the State will have to use other revenue sources or increase its unemployment contribution rate after the volume of unemployment has declined.

The Council is aware that some States have constitutional provisions which, unless amended, will prevent them from taking advantage of these loans. It seems important to us, however, that the Federal offer be put on a businesslike basis with provision for the payment of interest and other safeguards against too frequent and too extensive borrowing. The loan should be for a 5-year period and should carry interest at the average yield of all obligations of the Federal Government. This is the interest rate now paid to the States by the Federal Government on the amounts which the States have on deposit in the Unemployment Trust Fund. No one loan should be greater than the estimated requirements of the State for the next 12 months but there would be no limit on the total amount which a State might borrow. The State would become eligible for a loan on meeting all other conditions if it had insufficient funds in its unemployment trust fund account to meet estimated expenditures for the next 12 months.

To promote a more rational relationship between the contribution rates and the cyclical movements of business, it is desirable to prevent an increase in rates when unemployment is high. If a State increased its unemployment contribution rate before covered unemployment had dropped below a given percentage of covered employment in that State—an appropriate figure might be from 10 to 12 percent—further loans would be denied. To provide for prompt repayments of the loans, the Federal law should require that all contributions deposited in the State's unemployment trust fund account in excess of benefit payments expected in the next quarter would be applied against the loan. The loan should be negotiated by the Federal Security Administrator on application of the State agency and he would approve the loan for payment by the Treasury.

As indicated in recommendation 13, p. 172, the income from the Federal Unemployment Tax Act should be earmarked for unemployment insurance purposes, and one-half of any surplus over expenses incurred in the collection of the tax and the administration of unemployment insurance and the employment service should be appropriated and credited to the loan fund. The War Mobilization and Reconversion Act of 1944 has already established a fund to provide advances to the States for unemployment benefits, but, under existing law, that fund would terminate on April 1, 1950. By July 1948 that fund, which was authorized to hold the difference between the 0.3 percent Federal unemployment tax and the actual administrative expenditures of the State and Federal Governments under title III of the Social Security Act, would have totaled \$970,000,000 if the authorized appropri-



tion had been made.<sup>15</sup> The amount already authorized for this fund should stand to the credit of the new loan fund and should be appropriated as needed. If the amounts available from both these sources prove insufficient to finance the necessary loans, the additional sums needed should be appropriated from general Federal revenues.

### 11. Standards on Experience Rating

*If a State has an experience rating plan, the Federal act should require that the plan provide (1) a minimum employer contribution rate of 0.6 percent; (2) an employee rate no higher than the lowest rate payable by an employer in the State; and (3) a rate for newly covered and newly formed firms for the first 3 years under the program which does not exceed the average rate for all employers in the State*

To finance an adequate system of unemployment insurance, some States will need to establish unemployment contribution rates higher than the combined employer and employee minimums of 1.2 percent required by the Federal Government. In such cases, the Council believes that the States should be left free to set the higher rates uniformly for all employers and employees or to relate the higher employer rates to the employer's individual experience with the risk of unemployment. The Council believes, on the basis of its analysis of the arguments for and against experience rating, that the Federal interest in unemployment insurance does not require prohibition of all experience rating but is concerned rather that contribution rates reduced through experience rating are consistent with reasonably adequate benefit provisions and sound fiscal practice.

Under the Council's proposals for a minimum contribution rate (recommendation 9, p. 166), experience rating in most States could not operate to reduce the income of the system to a point which would threaten adequate benefit standards. Furthermore, the minimum rate would place a limit on the tendency of most experience rating plans to reduce contribution rates in prosperous times just when general economic principles dictate peak rates, and correspondingly would limit the increase in rates in periods of growing unemployment when it is desirable to have low rates. The Council believes that, after establishing certain safeguards, the Federal Government should leave to the States the option of maintaining experience rating plans.

A minimum employer contribution rate of 0.6 percent would be automatically achieved under recommendation 9, p. 166, hence no specific Federal standard on this point would be necessary. The Council proposes, however, two Federal standards for State experience rating plans to replace the present requirements in section 1602 of the Federal Unemployment Tax Act, which would become obsolete under the Council's proposal. These Federal standards are as follows: (1) The contribution rate for employees should not exceed the lowest rate payable by any employer in the State, and (2) newly formed or newly covered firms, for the first 3 years under the program, should be required to pay no more than the average rate for all employers in the State.

<sup>15</sup> This figure equals the 0.3 percent of pay roll collected by the Federal Government since 1936, minus the Federal costs of collecting the tax and administering the unemployment insurance program and all grants to the States under title III of the Social Security Act. Grants to the States under title III include the expenses of administering unemployment insurance for all years and the expenses of the employment service related to unemployment for the years 1938 through 1941.

The Council considers experience rating inapplicable to employees. Generally speaking, differentials based on company experience with the risk of unemployment could not be expected to stimulate employees to effective action in regularizing employment. In our opinion, all employees in a State should pay the same rate for the same benefits. We believe further that employees should not pay at a higher rate than their employers. It follows therefore that under experience rating schemes, the employee rate for all employees should equal the rate payable by the employer with the lowest rate in the State.

Under the present law, new employers must have 3 years of contribution experience before they are eligible for a reduction from the full 3 percent tax rate. Many new business ventures, especially firms established by veterans, have felt this provision discriminatory, since they must pay the full rate, while some of their long-established competitors may pay less than 1 percent. The mere repeal of section 1602 would allow the States to determine the rates payable by new employers and newly covered employers more equitably than is now possible; the Council nevertheless believes that the Federal Government should go further and require State experience rating plans to stipulate that new employers will be required to pay no more than the average contribution rate for all employers in the State for the first 3 years under the program. Under the proposed standard, a State would be allowed to charge new firms a lower-than-average rate, perhaps the minimum State rate of 0.6 percent.

## RECOMMENDATIONS ON ADMINISTRATION

### 12. Combining Wage Credits Earned in More Than One State and Processing Interstate Claims

*The Social Security Administration should be empowered to establish standard procedures for combining unemployment insurance wage credits earned in more than one State and for processing interstate claims. These procedures should be worked out in consultation with the administrators of the State programs and should provide for the combination of wage credits not only when eligibility is affected but also when such combination would substantially affect benefit amount or duration. All States should be required to follow the prescribed procedures as a condition of receiving administrative grants. Similar procedures should be worked out, in cooperation with the Railroad Retirement Board, for combining wage credits earned under the State systems and under the railroad system.*

In a State-Federal system, the Federal Government has a clear responsibility for seeing that the provisions of the several State unemployment insurance programs do not penalize workers who move from State to State in search of work. Of the 51 jurisdictions, 45 now have a limited type of voluntary interstate agreement on combining wage credits, but only if such combination is needed to make a worker eligible for unemployment benefits. No provision is made for combining credits solely to increase the benefit amount or duration and there is no safeguard to prevent the windfalls which may now result when a worker becomes entitled to benefits in more than one State. All States participate in a voluntary plan for the acceptance and transmittal

of claims based upon wage credits earned in other States. Under present arrangements, however, long delays in the payment of these claims frequently result from divided authority among the States. The State taking the claim gathers the facts, while the State in which the credits were earned makes all decisions. An appeal under these conditions is particularly difficult to process.

At present 18 States are engaged in an experiment in which the State where the wage credits were earned makes the initial decision only. All decisions on continuing eligibility are made in accordance with the law of the State in which the worker is applying for benefits.

The Council believes that it is possible to work out more equitable protection for the interstate worker and that all States should be required to cooperate in giving such protection. The absence of even one State as a party to these agreements leaves a serious gap in the protection afforded. At present, even the States that have entered into voluntary agreements may withdraw at any time or merely refuse to follow the procedures agreed upon if they find them onerous. In our opinion, the Federal Government, in protecting the interest of the interstate worker, cannot afford to rely on the voluntary cooperation of individual States. The Social Security Administration should be empowered by statute to prescribe standard procedures for combining wage credits earned in more than one State and for processing interstate claims. These procedures should be worked out in consultation with the administrators of the State programs. All States should be required to follow the procedures as a condition of receiving administrative grants.

The Council recognizes that Congress has long responded to the expressed need for special legislation for railroad workers and that unemployment insurance for such workers would be particularly difficult to administer under State laws, since a large proportion of railroad employment is performed in more than one State. The Council, in its consideration of the relationship of the old-age and survivors insurance program to the railroad retirement program, has noted, however, the large extent of shifting between railroad and other employment. The Council therefore strongly recommends that the Social Security Administration, the Railroad Retirement Board, and the State employment security agencies develop the provisions necessary for combining wage and employment credits for unemployment insurance that will neither penalize nor encourage shifts to or from railroad employment.

### 13. Financing Administrative Costs

*Income from the Federal Unemployment Tax Act should be dedicated to unemployment-insurance purposes. One-half of any surplus over expenses incurred in the collection of the tax and the administration of unemployment insurance and the employment service should be appropriated to the Federal loan fund and one-half of the surplus should be proportionately assigned to the States for administration or benefit purposes. A contingency item should be added to the regular congressional appropriation for the administration of the employment-security programs. The administrative standards in the Social Security Act should be applicable to the expenditure of the surplus funds as well as to expenditures of the funds originally appropriated*



Administrative costs of State unemployment-insurance programs and State employment services are now financed by grants to the States from the general revenues of the Federal Government. Individual States estimate their work loads on the basis of general economic assumptions supplied by the Social Security Administration. Using these State estimates, the Social Security Administration prepares a consolidated budget for the entire country sufficient for the "proper and efficient administration" of the programs. After review and possible amendment by the Bureau of the Budget acting on behalf of the President, the consolidated budget is submitted to the Congress. The amount appropriated by Congress is distributed among the States in accordance with State factors determined by the Social Security Administration.

The Council believes that it is important for the Federal Government to continue its responsibility for assuring to each State enough funds to administer the program in accord with at least minimum Federal standards, and therefore recommends that the Federal Government continue to bear financial responsibility for paying the costs of proper and efficient administration of the program. We believe, however, that it is important to provide an additional source of funds for the administration of unemployment insurance which would make it possible for certain States to pioneer in administration and do more than the minimum which the Federal Government is willing to approve as necessary for all States. This purpose can be accomplished by providing that some funds which could be used for administration be automatically assigned to the States.

At present, the 0.3 percent of covered pay roll which the Federal Government derives from the Federal unemployment tax goes into the Treasury of the United States without earmarking. The hearings and committee reports at the time the tax was imposed, however, clearly indicate that this revenue was intended to finance the administrative costs of the program. Actually the income from this tax has greatly exceeded administrative costs over the period since it was first imposed.<sup>16</sup> The Council believes that this Federal "profit" is unjustified and that the proceeds of the Federal tax should be earmarked for the use of the employment security programs. One-half of any surplus over expenses incurred in the collection of the tax and the administration of unemployment insurance and the employment service should be appropriated to the Federal loan fund (recommendation 10, p. 168) and one-half of the surplus should be assigned to the States—each State getting the proportion that taxable wages in that State bear to all taxable wages in the United States. The amounts so credited could be used on the State's initiative for either administration or benefits. The Council believes that the right to use excess funds for administration should be limited to 3 years after receipt of the funds. Thereafter, any excess funds which had not been used for administration would be available only for the payment of benefits. The Council believes further that the administrative standards in the

<sup>16</sup> Grants for administration under title III of the Social Security Act and the costs of collecting the tax have fallen some \$970,000,000 short of the amount collected by the Federal Government. When the total expenses of the employment service as well as administrative costs of unemployment compensation are subtracted from the Federal income from this tax, the balance is somewhat less than half a billion dollars.



Social Security Act should be applicable to the expenditure of the surplus funds as well as to expenditures of the funds originally appropriated.

The employment-security programs are particularly sensitive to changes in economic conditions, making it difficult to budget adequately for administration. At present it is frequently necessary to appeal to Congress for deficiency appropriations and for the Federal Government to deny much-needed funds to the States until such appropriations are available. To correct this situation, a contingency item should be added to the regular congressional appropriations for the administration of the employment-security programs.

The Council wishes to emphasize that the 0.3 percent of taxable wages may not always be the exact amount which should be earmarked for administration; it is hoped that States will continue to find means of cutting costs. Likewise, to the extent that broadened coverage includes groups presenting administrative problems, costs may rise. Similarly a radical change in the employment situation would greatly increase administrative costs. A period of experimentation will determine whether the amount is too great or too small. Subsequent changes can then be made.

#### 14. Clarification of Federal Interest in the Proper Payment of Claims

*The Social Security Act should be amended to clarify the interest of the Federal Government not only in the full payment of benefits when due, but also in the prevention of improper payments*

The Social Security Act now directs the Federal agency to withhold the payment of administrative expenses unless a State law provides for methods of administration such as "to insure full payment of unemployment compensation when due."<sup>17</sup> Furthermore, the Administrator is authorized to halt payments for administrative expenses to any State when he finds that, in the administration of the law, there is "a denial, in a substantial number of cases, of unemployment compensation to individuals entitled thereto under such law."<sup>18</sup> The present Federal law thus clearly holds the Federal agency responsible for seeing that State agencies pay valid claims, promptly and in full.

The Social Security Act is not equally specific about Federal responsibility for assuring that the State laws provide for administration reasonably calculated to prevent payment of invalid claims. While the Federal agency has taken some responsibility in this area, its statutory authority in relation to payments on invalid claims has been less clear than in relation to the failure to make payments on valid claims.<sup>19</sup>

The Council believes that the integrity of the system would be gravely threatened by payment of benefits which are not due as well as by failure to make payments when due. An amendment should therefore make it clear that the Congress intends the Federal agency to refuse to certify grants for administrative costs when the evidence of inadequate administrative methods is either the denial of valid claims or the payment of invalid claims.

<sup>17</sup> Sec. 303 (a).

<sup>18</sup> Sec. 303 (b).

<sup>19</sup> Both the Social Security Administration and the States, however, have for some time been concerned with the problem of erroneous and fraudulent claims; appendix IV-B deals with this subject at greater length.

One way of clarifying this intent would be to add to section 303 (a) of the Social Security Act the phrase "but only to individuals entitled thereto." It would then read in part:

The Administrator shall make no certification for payments to any State unless he finds that the law of such State \* \* \* includes provision for such methods of administration \* \* \* as are \* \* \* reasonably calculated to insure full payment of unemployment compensation when due, *but only to individuals entitled thereto.*

Although we believe that the total number of cases of deliberate fraud is relatively small, despite the widespread public attention given to such cases, all reasonable effort should, of course, be made to prevent fraud and eliminate all types of unwarranted payments. This result will be achieved mainly by improving methods in determining eligibility. The determination of eligibility in unemployment insurance is extremely difficult. The facts needed are hard to obtain and the questions to be decided are susceptible of widely differing interpretations. To determine what constitutes "suitable employment," "good cause for not accepting suitable employment," "availability for work," "a voluntary quit," for example, requires first the formulation of general interpretations of the statutory terms and then the application of the interpretations to a specific set of facts gathered largely through the interviewing process.

Anything short of carefully conducted interviews by specially trained and selected personnel of high caliber inevitably results in a large volume of unwarranted payments, some of them on deliberately fraudulent claims, and others merely erroneous. Even more important, badly conducted interviews result in disqualifying many claimants who are really entitled to payments. Both the failure to make proper payments when due and the payment of unwarranted benefits result mainly from the claimstaker's lack of skill or his or the worker's or employer's failure to understand the provisions of the law. Improper payments can be eliminated only by improvement of educational and training programs for employed personnel and by an increase in the amount and quality of information made available to the public.

The Council recognizes that under the present program administration of the unemployment insurance programs is primarily a State responsibility and that the quality of administration will necessarily depend in large part on the caliber of the personnel the State selects to do the job. Nevertheless, the Federal Government is concerned with the quality of administration both in determining whether a State is entitled to administrative funds through conformity with certain basic administrative standards and in approving funds for proper and efficient administration. In our opinion, improved administration is of major importance in the development of the unemployment insurance program. A major reason for our recommendation for changes in the provisions for financing administrative costs (recommendation 13, p. 172) is to insure the availability of more funds for this purpose.

## RECOMMENDATION ON DISQUALIFICATIONS

### 15. Standards for Disqualifications

*A Federal standard on disqualifications should be adopted prohibiting the States from (1) reducing or canceling benefit rights as the*

*result of disqualification except for fraud or misrepresentation; (2) disqualifying those who are discharged because of inability to do the work; and (3) postponing benefits for more than 6 weeks as the result of a disqualification except for fraud or misrepresentation*<sup>20</sup>

Under most State laws workers are "eligible" for benefits only as long as they continue to be able to work and available for work.<sup>21</sup> In addition, they may be "disqualified" for benefits even though they are able to work and available for work and meet all other eligibility requirements. These disqualifications are imposed for three major reasons: "Voluntary leaving," the "refusal of suitable work," and "misconduct connected with the work." (See table 9, appendix E, for summary of disqualification provisions in State laws.)

In the Council's opinion, reasonable disqualification provisions should be maintained and strictly enforced to prevent payments to those who are unemployed through their own voluntary act or because they have failed to make a reasonable effort to hold a job. In some States, however, disqualification provisions have been introduced which deny benefits to individuals who are genuinely unemployed through no fault of their own and are ready, willing, and able to accept suitable work. In other States, unreasonable penalties have been attached to the disqualifying acts.

1. *Provisions which cancel or reduce benefit rights.*—In 22 States benefit rights are now canceled or reduced for some cause other than fraud or misrepresentation. Such reduction or cancellation means that those who are disqualified not only are denied benefits for unemployment immediately resulting from the voluntary quit, refusal of suitable work, or discharge for misconduct, but also lose accumulated benefit rights which would otherwise be available to them if they are subsequently employed and suffer a second spell of unemployment. The Council condemns the intent and effect of these provisions. Such cancellation and reduction deny benefits in periods of unemployment for which the propriety of compensation is not open to question. The Council recommends the establishment of a Federal standard to prohibit the cancellation or reduction of benefit rights except for fraud or misrepresentation.

2. *Interpretations of "misconduct" tending toward making discharge for inability to do the work a basis for a finding of misconduct.*—The concept of involuntary unemployment should undoubtedly exclude unemployment resulting from discharge, if the worker has made no real attempt to hold the job and if the reason for his discharge is insubordination, consistent refusal to follow shop rules, or other types of gross misconduct. Failure to perform adequately in a job, however, is most commonly due to inadequate training, poor placement, and other inadequacies attributable to both management and worker. To deny benefits because a worker cannot measure up to criteria established by the employer under conditions primarily under

<sup>20</sup> Three members of the Council are of the opinion that there should be no Federal standards relating to disqualifications beyond those now in the act. They believe the underlying principle of the present State-Federal system is that wide discretion be left to the individual States and that by compelling all States to accept the proposed standards, this principle would be violated and a considerable number of States would be required to change their laws. They also point out that there is a wide divergence of opinion regarding the merits of disqualification provisions in State laws, and that some provisions have been introduced in an effort to reduce improper payments. They maintain that if some States have gone too far, public opinion within the State will bring about a change.

<sup>21</sup> In five States a worker who was able to work at the time of filing a claim but became ill while still unemployed may nevertheless continue to receive benefits.



the employer's control is, in the Council's opinion, to deny benefits to many whose unemployment can in no sense be considered as voluntarily incurred.

3. *Excessive postponement of benefits or denial of benefits during the entire spell of unemployment because of a disqualification.*—Some States (11 with respect to voluntary leaving, 6 for misconduct, and 12 for refusal of suitable work) withhold benefits for any period within the spell of unemployment following such action. Certainly a worker should not receive benefits if his actions are not consistent with a genuine desire for work; and voluntary leaving, refusal of suitable employment, and other causes of disqualification raise a presumption that he does not desire work. This presumption, however, should not apply to the whole spell of unemployment regardless of its length. The basic question is whether the entire spell of unemployment following a voluntary quit, refusal of work, or misconduct can reasonably be considered voluntary unemployment or whether, after a limited period, if the worker remains able to work and available for work, the continued unemployment is not due to lack of suitable work. The Council believes that 6 weeks is probably the maximum period during which it is reasonable to presume that the original disqualifying act continues to be the main cause of unemployment.

A Federal standard such as we propose would in no way prevent States from imposing a shorter period of disqualification, either in all cases or on a basis which would vary with the particular disqualification. A new "refusal of suitable employment," of course, could result in postponement of benefits for an additional 6 weeks and States would be allowed to postpone benefits for longer periods than 6 weeks for fraud or misrepresentation.

Opinion within the Council is divided on whether it would be desirable to propose an additional Federal standard prohibiting State laws from disqualifying persons because their unemployment is not "attributable to the employer" or "connected with the work." There are now 16 State laws which have such provisions. They rule out personal reasons as good cause for leaving a job. All members of the Council agree that the payment of benefits to persons who leave jobs for personal reasons should not be reflected in the employer's experience rating and most members of the Council favor the practice that several States now follow—paying benefits in such cases but not counting the benefits for experience-rating purposes.

The division within the Council is related to the question of how far the Federal Government should go in requiring the States to compensate for unemployment attributable to personal reasons rather than to the question whether it is desirable for the States on their own initiative to compensate for such unemployment. Some members feel that the States should be required to compensate for unemployment arising in such instances as when a worker moves to a new locality for the sake of his own health or that of his family, or he leaves one job to accept an offer of work which is later withdrawn. Another example of unemployment attributable to personal reasons which is not compensated in some States is that which results when a worker who recovers from an illness finds that his old job has been filled and that he must seek another; the unemployment under these rulings is not com-



pensated because it is not "attributable to the employer." Other members of the Council feel that the decision whether unemployment resulting from such causes should be compensated should be left entirely to the States.

## RECOMMENDATION ON PLANS SUPPLEMENTARY TO UNEMPLOYMENT INSURANCE

### 16. Study of Supplementary Plans

*The Congress should direct the Federal Security Agency to study in detail the comparative merits in times of severe unemployment of—(a) unemployment assistance, (b) extended unemployment-insurance benefits, (c) work relief, (d) other income-maintenance devices for the unemployed, including public works. This study should be conducted in consultation with the Social Security Administration's Advisory Council on Employment Security, the Council of Economic Advisers, and the State employment security agencies, and should make specific proposals for Federal measures to provide economic security for workers who do not have private or public employment during a depression and who are not adequately protected by unemployment insurance*

The Council recognizes that the burden of unemployment in a severe depression cannot be met in any one way. Neither unemployment insurance nor any other single method will be sufficient to do the whole job. A complete system of social security would provide for various types of plans to supplement unemployment insurance in times of large-scale unemployment.

The Council intended to make recommendations concerning the merits and shortcomings of the various possible plans and, in submitting recommendations on public assistance, said: "In its report to be submitted on unemployment insurance, the Council plans to consider the problem of the responsibility of the Federal Government for the income maintenance of workers in time of business depression."<sup>22</sup> We regret that we have been unable to make the thorough study of alternative lines of action on which to base a policy decision in this area. We believe, however, that it is important that the Federal Security Agency study alternative methods of providing income security for workers who do not have private or public employment during a depression and who are not adequately protected by unemployment insurance and that preliminary plans be completed for putting the best methods into effect. We therefore recommend that the Congress direct the Federal Security Agency to make such a study in consultation with its Advisory Council on Employment Security, the Council of Economic Advisers, and the State employment security agencies.

The State-Federal system of unemployment insurance should pay benefits of sufficient duration to permit most covered workers in normal times to find suitable employment before their benefit rights are exhausted. Furthermore, the Council has recommended that the State-Federal public assistance program be strengthened to meet more adequately the needs of unemployed workers ineligible for in-

<sup>22</sup> See p. 103.

surance benefits or with inadequate insurance rights.<sup>23</sup> These dual provisions for the unemployed through the State-Federal programs would suffice, the Council believes, unless the country is again plunged into a period of severe and prolonged economic distress. In that event, additional Federal action would clearly be needed for the relief of the unemployed. A depression has an uneven impact upon different cities and regions and many States and localities are not capable of meeting the great increase in expenditures called for by mass unemployment. In such a period only the Federal Government has sufficient credit and sufficiently broad eventual tax resources to meet the full need.

The Council does not anticipate a return to the economic stagnation of the 1930's, but believes that it is prudent to prepare for a heavy volume of unemployment even while steps are being taken to prevent its recurrence. The Council cites without specific recommendation various types of possible Federal action. We wish to emphasize that whatever methods are used the integrity of the insurance system should be maintained and separate financing should be provided for the supplementary plans.

(a) *Unemployment assistance*.—A special program of unemployment assistance might be used for persons who do not come under the unemployment insurance program either because of its failure to cover all types of work or because many members of the covered labor force are unable to meet the eligibility requirements in times of depression. Depressions greatly increase the number of persons who seek work for the first time to supplement the family income, and the number of formerly self-employed persons looking for jobs also rises. Moreover, as the depression deepens, the number of wage earners who lack recent earnings in covered employment increases, hence the insurance system bears a smaller and smaller proportion of the load of unemployment.

A State-Federal unemployment assistance plan might be established with the same scale of Federal contributions as those recommended in the Council's report on public assistance for old-age assistance, aid to the blind, and aid to dependent children (three-fourths of the first \$20 plus one-half up to \$50 for the first two in a family plus \$15 for each additional person). If the depression were prolonged, some States might be unable to meet their share of unemployment assistance payments without additional Federal help. The Federal Government, as in the 1930's, might take over almost all costs, or it might lend the States their share.

(b) *Extended unemployment benefits*.—Another possibility would be to permit extension of unemployment benefits at the same rate and to the same persons for an additional 13 or 26 weeks. If extended benefits are granted, the beneficiary might be required to take a training course or move to an area offering better employment opportunities. A needs test, however, would not be applied. A separate plan for financing extended benefits should be provided either on a joint State-Federal basis or by the Federal Government alone. Otherwise, extended unemployment benefits would undermine the unemployment insurance system.

(c) *Work-relief program*.—In the 1930's Congress spent billions of dollars on a series of work-relief projects. Debates over the advan-

<sup>23</sup> Recommendation 2 in pt. III, p. 108, provides for Federal grants for "general assistance."

tages and disadvantages of work versus cash relief are still raging long after the demise of NYA, CCC, and WPA. Advocates of work relief may admit the folly of some projects, but they point to thousands of successful ones which have added significant value to the American economy. They also argue that many relief workers received training on the job and that work habits were maintained better than if cash relief had been the only method used. The advocates of cash relief cite its great simplicity and economy, and argue that most of the best work-relief projects competed with private industry or regular Government work and that work relief in many cases fostered bad work habits rather than maintained good ones.

(d) *Other income—maintenance devices for the unemployed, including public works.*—Quite apart from unemployment insurance, unemployment assistance, extended unemployment insurance, and work relief, the Federal Government might, in times of serious depression, increase its spending on essential public works. Such action would stimulate employment primarily in the construction industries, secondarily in industries supplying the construction industry, and indirectly in the industries whose products are consumed by workers employed on the projects and in the supplying industries. On the basis of past experience, however, it is clear that public works alone are insufficient for a large number of the needy unemployed. Although in other recessions large numbers of construction workers have been unemployed, the secondary and subsequent effects of increased public works were not enough to give employment to many other groups who needed jobs. Although the Council recognizes the advantages of planning public works in good times and expanding them in periods of slack employment, it considers public works as an incomplete solution of the problem of widespread depression unemployment among persons ineligible for unemployment insurance benefits.

Various combinations of the methods discussed above might be used. Other plans have also been suggested such as self-help groups, share-the-work plans, and guaranteed employment.

Throughout the country, both in business and labor groups, there is a widespread conviction that serious cyclical recessions can and should be minimized. Many general proposals have been made to promote full employment, and Congress has established a Council of Economic Advisers to deal specifically with this problem. If these attempts are successful, supplementary plans will not be needed, but as a safeguard against hasty and ill-conceived schemes, it will be well to have a sound plan ready if, despite all efforts, the country is again faced with the problem of large-scale unemployment.



## TEMPORARY DISABILITY INSURANCE

The Council in its second report to the Senate Committee on Finance presented recommendations for a program that would afford protection to workers against the loss of wages due to permanent and total disability.<sup>24</sup> Under these recommendations, benefits would be provided only to workers who have been disabled for a period of at least 6 months when it appears likely that the disablements will be of long-continued and indefinite duration. Because time was lacking for a comprehensive study of the various methods that have been proposed to afford protection to workers who are unemployed because of temporary disability, the Council refrains from making any recommendations covering this area. The Council, however, recognizes that the loss of income from temporary disability is a major economic hazard to which all wage earners are exposed. In lieu of recommendations, a summary statement on the need for providing protection against wage loss due to temporary disability, the scope of existing programs, and some of the methods that have been suggested by various groups to afford workers such protection is presented below.

On the average day, illness prevents about 2 to 2½ million persons recently in the labor force from working or seeking work. In a year wages amounting to 5 to 6 billion dollars are lost because of disabilities lasting up to 6 months. The economic hardship caused by disability may be an even more serious hazard to workers than is wage loss, because illness entails medical expenses as well as the loss of income. Unlike the situation in other major industrialized countries, however, compulsory protection against wage loss due to temporary incapacity in this country is largely confined to work-connected accidents and diseases in industry and commerce which are covered by workmen's compensation programs. Only three States (Rhode Island, California, and New Jersey) have provided for the payment of benefits for temporary disability to workers covered by their unemployment-insurance laws. In addition, the railroad unemployment-insurance law has been extended to provide cash sickness benefits to workers covered by that law.

In recent years, voluntary health and welfare plans provided under collective-bargaining agreements have expanded materially. While such plans may provide excellent protection against the loss of income from temporary illness or other disablements for the groups economically powerful enough to obtain such protection, large groups of workers continue to remain unprotected under voluntary health and welfare plans. A study made in New York State indicated that only about 30 percent of the workers now covered by unemployment insurance have some protection against wage loss due to disability under group health and accident policies or formally established employer plans. For the country as a whole, an estimated 20,000,000 workers

<sup>24</sup> See pp. 69-93.



who are covered by State unemployment-compensation programs have no protection under formally established voluntary sickness-benefit plans. The extension of such protection to all employees in industry and commerce is unlikely because individual premium rates under commercial group insurance policies make coverage expensive for industries in which a relatively high incidence of disability may be expected. For instance, when women and nonwhite employees constitute 51 to 60 percent of the total number of eligible employees, rates for manual workers are 62.5 percent higher than the minimum—and increase proportionately to 112 percent higher when all eligible employees are women or nonwhite. Furthermore, group contracts are not suitable for small establishments; the smaller the number of employees, the greater the probabilities that the distribution by age and sex, as well as health of employees, will differ from the norms for establishments with a large number of employees. It is not uncommon for underwriters of group health and accident insurance to refuse to insure groups of less than 50 employees, while State insurance laws frequently prohibit issuance of group policies to groups of less than 25. Moreover, under any voluntary plan of affording protection to workers against the loss of wages, the employers who pay the lowest wages and whose employees consequently are in greatest need of protection would be the least likely to participate in such a plan.

The New Jersey State Commission on Postwar Economic Welfare, after considering the need for temporary disability insurance and the possibilities for coverage under voluntary plans, came to the following conclusion:

Popular opinion also overwhelmingly favors the extension of some form of social security legislation to protect against the hazards of illness. Particularly in the lower income levels, where the frequency of nonoccupational illness seems to be greatest, people suffer most severely from the economic effects of wage loss. Since it is an accepted public policy to protect the individual against wage loss caused by involuntary unemployment, it seems desirable to fill the gap in this protection by meeting the hazards of inability to work caused by sickness. The public interest in social and economic security and stability is as much served in the one case as in the other.

While the progress made in supplying protection against wage loss caused by illness through voluntary programs adopted by employers has been great, the need for the extension of such protection is so great as to warrant the establishment of some form of uniform minimum standard coverage. Given sufficient time, the voluntary program might very well be extended greatly, but there would always remain a significant number of people for whom either no provision has been made or for whom inadequate provision has been made. The establishment of a minimum standard and its enforcement is essentially a function which must be performed by government, in whatever manner benefits may be provided. It remains to determine the best method by which such minimum benefits may be provided and financed.<sup>25</sup>

The four existing laws providing insurance against temporary disability—the Rhode Island, California, and New Jersey State laws, and the Federal law for railroad workers—are very closely allied with the respective unemployment insurance laws in both substantive provisions and administrative arrangements. The same groups of workers are covered, the same type of formula determines the benefits payable, the same measure of attachment to the labor force is used, and except in the New Jersey plan for disability during employment, the same “base periods” and “benefit years” are used for temporary dis-

<sup>25</sup> Fourth Report of New Jersey State Commission on Postwar Economic Welfare, pp. 9–10.

ability and for unemployment insurance. While the New Jersey plan has no "benefit year," minimum and maximum benefits in any 12-month period are determined on the same basis as in unemployment insurance. All four statutes are administered by the unemployment insurance agencies, and thus use the same administrative machinery for collecting contributions, for maintaining wage records, and for staff services for both programs. Obviously, because disability rather than availability for work must be demonstrated by the claimant, the claims procedures are markedly different.

Benefits have been payable in Rhode Island since April 1, 1943, in California since December 1, 1946, and under the railroad system since July 1, 1947. In New Jersey, benefit payments will begin on January 1, 1949.

The most distinctive difference among the four programs is the provision in the California and New Jersey plans for a State-supervised system of private voluntary plans which may be substituted for the State-operated plan. (See appendix IV-D, table I, for comparison of the four temporary disability laws.) The voluntary plans, however, must fulfill certain requirements specified in the respective statutes. The California law requires that a private plan must afford more favorable rights to the employees it covers than are afforded by the State plan, at no greater cost to the employees; the plan must be available to all employees, must be accepted by a majority, and must not result in a substantial selection of risks adverse to the State fund. The New Jersey requirements differ in that the rights afforded under the private plan must at least equal those under the State plan, at no greater cost to the employees; if a majority of the workers in a plant accept a private plan, all the workers of that plant must be covered under it rather than under the State plan; and there is no other provision against adverse selection. Both laws contain other requirements designed to assure that the benefits promised by the private plans will actually be paid.

Voluntary private plans may be either self-insured by the employer or carried by a properly qualified insurance company. If a plan is approved as meeting the requirements of the State law, the employees covered by it receive their disability benefits under the voluntary plan and are exempted from paying contributions to the State fund. On June 30, 1948, there were over 10,000 employers with approved voluntary private plans in effect in California (5 percent of the covered employers), which covered about 765,000 workers or 32 percent of the total number covered by the unemployment insurance and disability law.

Benefits under the State-operated systems in California and Rhode Island (which has no provision for the substitution of private voluntary plans for the State system) are financed exclusively by employee contributions of 1 percent of wages up to \$3,000. In New Jersey, benefits under the State-operated system are financed by an employee contribution of 0.75 percent and an employer contribution of 0.25 percent. The current contribution rate for the railroad temporary disability insurance system and unemployment insurance is 0.5 percent levied on employers. In all four laws, the weekly benefit amount is determined according to a schedule and related to previous wages; in Rhode Island the amount ranges from \$6.75 to \$18; in California from \$10 to \$25; in New Jersey from \$9 to \$22; and under

the railroad system the amount for a 2-week period ranges from \$17.50 to \$50. The maximum duration of benefits ranges from 3 to 20 weeks in Rhode Island, from 10 to 26 weeks in California, and from 10 to 26 weeks in New Jersey, depending on the amount of base-period wages. The railroad system provides a uniform potential duration of 26 weeks.

The New Jersey law actually provides three systems, one for workers unemployed when they get sick, one for those who are employed and not covered by private plans, and a third for those covered by private plans. For those employed at the time the disability begins, the weekly benefit amount is computed for the period of disability, and the maximum and minimum benefits mentioned above apply to any 12-month period. The individual is considered disabled when he is unable to perform the duties of his current job. The worker who is unemployed when he becomes disabled, however, must be unable to perform any work for remuneration if he is to be eligible for disability benefits. Moreover, he must have established a benefit year by a claim for unemployment benefits and must have served the 1-week unemployment insurance waiting period.

Disability due to pregnancy is treated quite differently under the four laws. Rhode Island considers pregnancy a disability whenever a woman is not working during pregnancy; maximum benefits for any one pregnancy, however, are limited to 15 weeks, except for unusual complications, and may be less, depending upon the amount of base-period wages. Under the New Jersey law, on the other hand, no payments are made for periods of disability due to pregnancy. California will pay for periods of disability lasting more than 4 weeks after the termination of pregnancy. The railroad act provides separate maternity benefits which are in addition to the ordinary duration of benefits; the maternity benefits are paid for 16 weeks, beginning 8 weeks prior to the anticipated date of confinement.

Temporary disability insurance is intended to protect against wage loss due to nonoccupational disability and is not a replacement for workmen's compensation, which continues to bear the costs of work-connected injury and disease. The existing laws provide for varying methods of coordination between the two programs. Rhode Island is the most liberal, permitting the payment of both types of benefits up to a weekly total of 90 percent of the weekly wage rate before the disability.

In June 1948, about 5.5 million workers (of the 34.3 million workers covered by unemployment insurance laws) were covered under the 4 existing laws for temporary disability insurance, 4.2 million of them under the 3 laws which had been paying benefits for at least 12 months on June 30, 1948.

During the year ended June 30, 1948, more than 50.3 million dollars was paid in temporary disability insurance benefits, with 50,700 disabled workers receiving benefits in an average week. Of the total benefit expenditures, 26.6 million dollars was paid to railroad workers—0.56 percent of taxable railroad wages. The California State plan paid out 19.4 million dollars—0.41 percent of the wages taxed under the State plan; an additional 56,000 spells of disability were compensated by approved private plans. Rhode Island benefits were 4.3 million dollars—0.78 percent of taxable wages. (See appendix



IV-D, table J, for summary of operations of California, Rhode Island, and railroad programs.)

During the year, there were three railroad sickness beneficiaries for every four unemployment insurance beneficiaries in the same period. In Rhode Island, there were two temporary disability insurance beneficiaries in an average week for each five unemployment insurance beneficiaries, while under the California State plan, disability accounted for only one beneficiary in an average week for every seven beneficiaries for unemployment insurance. These variations can be explained in terms of variations in the unemployment rates and in the characteristics of the covered groups, as well as differences in statutory provisions. Unemployment has been very low in the railroad industry during the past few years, while the ratios of insured unemployment to covered workers in California and Rhode Island have been among the highest in the country. Moreover, the average age of railroad workers is much higher than the average age of workers covered by a State law. The high proportion of women in the Rhode Island covered group, combined with the provision for benefits in cases of pregnancy, increased the number of Rhode Island beneficiaries.

Various methods have been suggested by interested groups to provide temporary disability insurance for workers in all States. These proposals differ on such points as whether the program should be established by State legislation, Federal legislation, or a combination of both. Further, the various proposals differ in respect to the administrative agency that would be responsible for the program. Among these proposals are those that would (1) integrate temporary disability insurance and unemployment insurance, (2) integrate temporary disability insurance and permanent and total disability insurance with old-age and survivors insurance, (3) provide only for State-supervised private plans, and (4) integrate temporary disability insurance with medical care insurance.

The proposal to integrate temporary-disability insurance with unemployment insurance has had considerable acceptance. As has been noted above, all four of the existing temporary-disability programs are closely linked with the unemployment-insurance programs. The Congress in 1946 enacted legislation to permit employee contributions collected by the States for unemployment-insurance purposes to be used to support State temporary-disability-insurance systems. Most of the bills for temporary-disability insurance that have been introduced in State legislatures would provide for the integration of the two programs.

The proponents of this method of affording protection to workers point to the economy to be derived from using the same administrative machinery and similar substantive provisions for both programs. In general, these proponents also recognize that a temporary-disability insurance program poses some problems that are not common to unemployment insurance and would therefore require certain special provisions, procedures, and staff to meet these problems. It has been argued that, for both programs, coverage could be afforded the same workers; the same covered wages and pay rolls could be used as a basis for contributions; and even if the benefit formula were somewhat different for temporary-disability insurance, the same wage credits could serve as a basis for benefits under both programs.



Although proponents for integration of these two programs may agree on the desirability of such action, sharp differences of opinion are expressed among them on the degree of responsibility for the temporary-disability system that should be vested in the State unemployment-insurance agency. Some advocate an exclusive State system, while others advocate a State-operated system, plus substitute State-supervised private plans. As has been noted above, the first type of system has been adopted by Rhode Island, and the second by California and New Jersey. Those who advocate an exclusively State-operated system argue that pooling all risks on a State-wide basis results in a higher level of benefits (or lower contributions) than if the risks were shared with private plans, since the latter would not cover poor risks. Further, it is claimed that, when any private plan proves unprofitable, the group covered by such a plan is eventually turned over to the State-operated system. The proponents of an exclusively State-operated system also point out that a State agency, unlike insurance companies engaged in the business of insuring workers under a private plan, earns no profit and incurs no sales cost; so that, if the State system is permitted to insure all eligible workers, the proportion of contributions available for benefit payments is larger than under any other system. Recognition of private plans, it is argued, will also add to administrative problems because of the need for review and supervision of these plans and the need to assure continuity of coverage and prevention of duplicate payments to workers moving from one type of plan to another.

Those who favor a State-operated system plus substitute State-supervised private plans emphasize that all eligible workers acquire protection, either under the State-operated program or under substitute private plans approved by the State supervisory agency. They claim that this type of system, whereby the employees and employer may choose between the public or private plans, provides a high degree of flexibility and avoids freezing benefits at a statutory minimum level. Workers who are now covered by generous private plans could retain that coverage if the employer agreed and the State agency approved, thereby avoiding the need to transfer many workers to a system paying lower benefits. Similarly, private plans with provisions more liberal than those offered by the State law could be adopted if employers and employees desired and were able to pay for better protection, and employers would have a more direct interest in the plan. The advocates of this type of system also claim that competition between a State-operated plan and private plans stimulates more economical and efficient administration of both plans.

Proponents for integration of temporary-disability insurance and unemployment insurance disagree on the role of the Federal Government in such a program. Some advocate complete federalization of both unemployment and temporary-disability insurance; others say that the program should be exclusively a State responsibility; while many other types of action advocated fall between these two extremes.

Those who favor Federal action argue that the Federal Government has as vital an interest in protecting the workers of the country against the loss of income from disability as it has in seeing that they are covered by unemployment insurance. They argue that, if workers in all States are to get this additional protection within the foreseeable

future, Federal action will be needed; and they cite the delay of 37 years in obtaining workmen's compensation in all States as compared with the 2-year period required to obtain unemployment insurance on a Nation-wide basis.

A number of the alternatives for Federal action short of complete federalization are listed below:

1. The Federal Government might pay the administrative expenses of State temporary-disability-insurance systems in the same manner as it now pays such expenses for unemployment insurance.

2. The Federal Government might go further and permit the use of State accounts in the unemployment trust fund to finance State systems of temporary-disability insurance under adequate safeguards for the solvency of the funds.

3. The Federal Government might make the establishment of a disability program a condition for the continued receipt of the tax offset under the present tax on employers for unemployment insurance.

4. The Federal Government might extend the Federal-State device used in unemployment insurance by levying a Federal tax for temporary-disability insurance.

Those who advocate the integration of temporary-disability and unemployment insurance under State laws, without any Federal legislative action, claim that State-Federal programs result in at least some control over the State agencies administering the programs; that such control sometimes makes it impossible for a particular State to use the best methods of meeting problems that are peculiar to the State; and that even limited Federal responsibility sometimes stifles State initiative and experimentation, which are especially important in developing sound programs in a relatively new area of the social-security field.

The proposal to integrate a temporary disability program and a permanent-and-total-disability program with old-age and survivors insurance has received considerable attention in recent months. The proponents of this plan cite the economy to be obtained from using the Nation-wide old-age and survivors insurance administrative machinery for payment of benefits and collection of contributions for a disability program, and the convenience to the public in having one field office for the filing of claims and the handling of wage questions for the three programs. They claim that only under a Federal program would workers have uniform protection against the loss of wages from illness regardless of State of residence or employment. These proponents also contend that, since temporary-disability insurance and permanent-and-total-disability insurance both need to establish disablement, the special staff and special procedures required for determining medical disability in one program could be utilized for the other. If the two disability programs were not integrated, much duplication of staff and procedures would be necessary. Furthermore, these proponents claim that, because many of the persons who will become eligible for permanent-and-total-disability benefits will first be eligible for temporary-disability benefits, a single administrative agency would be able to emphasize rehabilitation service for disabled persons at the earliest possible time instead of delaying such service until a claimant has become a beneficiary under the permanent-and-total-disability program. Similarly, it is claimed that integration of

the two programs will eliminate many of the gaps in protection against the loss of wages from disability that would exist under two separate programs.

The plan to provide temporary-disability insurance by the exclusive use of State-supervised private plans has been advocated by those who recognize the need for protection from wage loss during temporary disability but who believe such protection can best be provided by the purchase of group insurance or by self-insurance by employers. Under this plan, there would be no State-operated program; but, instead, private plans would be required under compulsory State legislation which would make it necessary for employers to provide a minimum level of protection to employees.

Many of the arguments in favor of this plan are similar to those that are advanced for permitting private plans to be substituted for a State-operated system. The proponents of the exclusively private-plan system argue that such a system would provide a high degree of flexibility and avoid freezing benefits at a statutory level; would permit the continuation of existing employer plans or the adoption of new plans if employers and employees desired and were able to pay for better protection; and that the employers would have a more direct interest in the system.

The advocates of this plan usually admit that some difficulties may arise in assuring protection to employees of some employers who may not be readily able to obtain insurance or to meet all the State requirements. They claim, however, that a solution to such difficulties can be found; and they cite the operation of workmen's compensation in jurisdictions that have exclusively private plans for that program as a precedent for the workability of a similar plan for a temporary disability program.

The plan to integrate temporary-disability insurance with medical-care insurance has been proposed by some of the advocates of the latter program. Under this plan, cash benefits would be paid for loss of wages due to temporary disability; and direct payments would be made to doctors, hospitals, and so forth, furnishing medical care to eligible persons. Although the two programs would be administered by one agency and persons receiving cash benefits would receive medical care, the latter service would also be available to others covered by the medical-care provisions.

Those who favor this plan cite the economy to be obtained by using one wage-record system and one administrative organization to serve both programs. They argue that, because the medical staff needed for one program would also be available for the other, such integration would permit better utilization of the time of the medical profession than would any other system. Furthermore, they claim that integration of the two programs would make rehabilitation services available without delay to those who could benefit from such services.



## APPENDIXES—UNEMPLOYMENT INSURANCE

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### APPENDIX IV—A. COST ESTIMATES

This appendix explains the bases of the cost estimates used by the Council in arriving at its proposed Federal tax rate of 1.5 percent for unemployment insurance to be paid in equal shares by employers and employees. In this rate, 1.2 percent would be offset by contributions to States for benefit purposes, leaving the 0.3 percent Federal tax to be expended for administration and the other purposes outlined in recommendations 10 and 13. This appendix deals only with benefit costs.

The 1.2 percent rate is merely a minimum State-contribution rate; any State may set a higher rate, as several States will need to do in order to support an adequate system of benefits. Under the Council's proposals, the States will retain responsibility for setting rates high enough to finance benefits under their programs. This minimum tax is proposed by the Council as a means of eliminating, so far as possible, interstate competition for lower contribution rates and thereby reducing present barriers to the provision of adequate benefits.

The 1.2 percent minimum rate is proposed by the Council for the next 10-year period only. It may be too low or too high as a minimum rate for periods which follow. It will certainly be too low for some States. It has been possible to recommend a rate as low as 1.2 percent because of the assumption that a considerable portion of present reserves will be utilized to pay benefits during the next 10 years. Actual benefit costs for the Nation as a whole over the next 10 years will probably be in excess of 1.2 percent of covered pay rolls. The amount of this excess will depend, of course, partly upon the employment pattern and partly on the rate of benefits. The Council has made four estimates based on two economic assumptions and two levels of benefits. The average cost for the next 10 years as shown by these estimates ranges from 1.5 to 2.0 percent of pay rolls.

Cost estimates for unemployment insurance depend on the benefit provisions, and on the volume, duration, and concentration of unemployment. The Council believed it wise to base estimates on two sets of hypothetical economic conditions which might prevail during the next 10 years—(1) a favorable cycle with unemployment ranging from 2 to 5 million in the next decade and (2) a more pessimistic outlook with unemployment ranging from 2 to 10 million. Estimates have been made for two different levels of benefits. One group of benefit assumptions is roughly equivalent to the benefit provisions now in effect in the States with the most liberal provisions, and the other assumption postulates somewhat higher expenditures. Since the estimates form the basis for setting a minimum rate which might prevail over the next 10 years, it seemed desirable to assume some liberalization of benefits such as might be expected during that period.



The Council recommends the minimum rate of 1.2 percent for benefit purposes because this rate seems to be applicable to the majority of the States under both benefit assumptions and both the favorable and unfavorable economic assumptions. We might have suggested a higher rate that would have covered the costs of even the highest-cost State, but this approach was rejected because it would require many States to collect more than they needed for an adequate level of benefits. Similarly, the Council might have proposed a much lower rate that would have covered the costs only in the lowest-cost States; but this approach was rejected because it would not accomplish the Council's purpose of reducing interstate competition for lower contribution rates. With such a minimum rate, most States would still be in the position of having to decide whether they would provide more liberal benefits or reduce the contribution rate to the minimum. The Council believes that the rate of 1.2 percent will avoid interstate competition in contribution rates among most States, but again reiterates the fact that, under its cost assumptions, a few States will have to charge more than the minimum rate, and that all States, under the State-Federal system, must be responsible for providing adequate contribution rates and benefits in relation to their own experience.

These estimates do not undertake to indicate what unemployment insurance will cost in the individual States over the next 10 years or what rates particular States should charge. Much more detailed study on an individual State basis would be needed before conclusions of this type could be reached. The estimates for the individual States are rough calculations based on their past benefit experience (the war years, 1942-44, were not considered in these estimates), and future benefit experience in many States will probably differ from past experience. The estimates do, however, give a basis for establishing a national minimum rate; for this purpose it is not necessary that the costs in each State be accurately predicted as long as the general picture is reasonably correct.

### I. ECONOMIC ASSUMPTIONS

Benefit costs for a specific unemployment insurance program depend primarily upon the economic conditions prevailing during the period under consideration.

In order to determine costs over a complete business cycle, the duration of the cycle must be established. If estimates are projected for only 3 or 4 years ahead they cannot adequately take account of a relatively severe decline, with unemployment reaching 5, 8, or 10 million, and subsequent return to predepression levels of business activity. On the other hand, it would be impractical to plan the financial structure of an unemployment insurance program too many years ahead. In view of these considerations, therefore, variations in economic activity over a 10-year period were considered. Ten years was deemed long enough to encompass anticipated variations in economic activity but not too long for practical purposes of planning.

To estimate costs over a business cycle, three basic assumptions need be established: (a) a high level of employment at the beginning and end of the cycle; (b) employment declining in the early phase of the cycle and increasing in its later phase; and (c) the range in the volume

of unemployment. The precise shape of the pattern does not significantly affect the size of the estimates. The slope may be irregular and the trough shifted to the left or right without affecting costs. It is important only that there be peak levels of employment at the beginning and end of the cycle and a specified range of variation in unemployment over the period. Detailed differences during the course of a business cycle tend to average out over the cycle.

#### A. FAVORABLE PATTERN OF EMPLOYMENT

One set of cost estimates was based on the assumption that unemployment during the next 10 years would vary from 2 to 5 million as follows:

Year of cycle	Unemployment (in millions)		Year of cycle	Unemployment (in millions)	
	At end of year	Average for year		At end of year	Average for year
1.....	2	2.0	7.....	5	5.0
2.....	2	2.0	8.....	2	3.5
3.....	5	3.5	9.....	2	2.0
4.....	5	5.0	10.....	2	2.0
5.....	5	5.0	Average for the cycle.....		3.5
6.....	5	5.0			

#### B. UNFAVORABLE PATTERN OF EMPLOYMENT

It is possible that estimated unemployment of 5 million at the trough of the business cycle might prove to be over-optimistic. Another set of estimates was therefore prepared based on the assumption that unemployment would range from 2 to 10 million during the course of the business cycle. In the 2 to 10 million cycle, unemployment was assumed to vary in the following manner:

Year of cycle	Unemployment (in millions)		Year of cycle	Unemployment (in millions)	
	At end of year	Average for year		At end of year	Average for year
1.....	2.0	2.0	7.....	7.5	8.7
2.....	2.0	2.0	8.....	2.0	4.8
3.....	7.5	4.8	9.....	2.0	2.0
4.....	10.0	8.7	10.....	2.0	2.0
5.....	10.0	10.0	Average for the cycle.....		5.5
6.....	10.0	10.0			

#### C. TURN-OVER

Unemployment insurance, as it operates in all States, compensates the highest proportion of unemployed workers during peak levels of employment and the initial stages of an economic set-back. As the depression deepens, a growing proportion of unemployed workers exhaust their benefit rights and find it difficult or impossible to get new jobs. During the later stages of a depression, although the absolute number of unemployed may be large, the percentage of the unemployed receiving benefits is much smaller than in the early stages. A fairly rigid demarcation develops among the unemployed between

workers in the turn-over group who stand a good or reasonable chance of finding a job, and those in the hard-core group who have relatively little chance of reemployment during the depression.

The cost estimates under both economic patterns were based on the assumption that turn-over among covered workers during periods of peak employment would average 2 to 3 percent of covered employment per month. This turn-over pattern is indicated by data on initial claims and covered employment reported by the State employment security agencies.

The turn-over group consists in large part of workers out of a job because of frictional factors in the economy that are prevalent in both good times and bad. Even if the workers in the turn-over group had as good chances of finding employment during the depression as during peak business activity, however, the emergence of the hard-core in a depression with almost no chances of finding a job tends to reduce the hiring prospects of unemployed workers taken as a whole. As a result, turn-over tends to decline during a depression. This phenomenon was taken into account in the preparation of the cost estimates.

An even more unfavorable pattern than either of those assumed, with unemployment rising to as much as 13,000,000, would raise costs on the average by perhaps 5 to 10 percent. These higher costs would result mainly from the increased number of initial layoffs averaged over the 10-year period, but also to a lesser extent from the longer duration of compensated unemployment. It is significant, however, that even extreme assumptions for the volume of unemployment do not increase costs substantially. Since unemployment benefits are paid for a limited duration and since eligibility depends upon recent earnings, the effect of large-scale unemployment on the costs of the system is limited.

Some consideration was given to the possibility that employers might rotate jobs by hiring workers as they exhaust benefit rights and laying off others as they gain eligibility for benefits. If this type of share-the-work were widespread, it would increase costs considerably. Because of seniority rules and employment practices, however, the extent of this type of job rotation is likely to be slight. On the other hand, the more normal share-the-work practice of reducing the number of hours worked per week would tend to reduce benefit costs. The cost estimates were based on the assumption that these contrary tendencies would about cancel out and that share-the-work practices would not affect benefit costs.

#### D. LABOR FORCE

Under both economic patterns, the labor force was assumed to increase at an average of 600,000 a year over the 10 years. At present, the labor force is growing at a rate of more than a million a year. Such growth, however, is unusual during peacetime and is probably attributable to the prevailing boom conditions. As conditions become more stable, the growth in size of labor force will probably tend toward the long-run average of 1 percent per year. About 1.2 million people will probably reach working age each year, while slightly more than half a million will leave the labor market because of age, infirmity, marriage, or death. During the past 12 months, the labor force has been averaging about 62 million.



## UNEMPLOYMENT INSURANCE

### II. BENEFIT ASSUMPTIONS

#### WEEKLY BENEFIT AMOUNT

Several facts have led the Council to conclude that existing benefit levels are on the average too low for estimating future costs. The facts are:

1. The average weekly benefit amount is now only about 35 percent of the average weekly wage; in the second quarter of 1947 it was less than 30 percent in eight States.

2. Even the maximum weekly benefit amount now ranges among the States from 35 to 59 percent of the average weekly wage, with 31 States in the 35 to 45 percent interval.

3. In 1947 more than half the benefit payments (57 percent) were at the maximum weekly benefit amount payable under the State laws; in eight States the proportion limited by the maximum exceeded 70 percent.

4. Increases in the cost of living have so greatly reduced the purchasing power of benefits that the average weekly benefit of \$19.28 in July 1948 was worth only \$11.11 in terms of 1935-39 dollars.

5. Even the present maximum weekly benefit amount would meet only 56.2 to 69.4 percent of the nondeferrable costs of living (49 to 53 percent of a total budget for family requirements) for a family of 4 in the 22 cities surveyed in June 1947, and the range among all 34 cities studied was from 48.9 to 86.4 percent.<sup>1</sup>

In order to determine the proper minimum rate over the next 10 years, it seemed prudent, on the basis of these facts, to assume for estimating purposes a higher level of benefits than now prevails in most States. The Council therefore assumed two sets of benefit conditions. The first set of assumed conditions is about equivalent to the provisions in the States with the most liberal benefits. These conditions assume weekly benefits equal, on the average, to at least 50 percent of previous weekly earnings up to a maximum benefit of \$25 a week and a uniform duration of 26 weeks.

The second set of benefit assumptions used by the Council provides for a somewhat higher level of benefits. The cost estimates are projected over a 10-year cycle and it is reasonable to assume that benefits will rise during this period as they have during the past 10 years. In this second set of conditions, the Council assumed weekly benefits equal, on the average, to 50 percent of previous weekly earnings calculated on wages up to \$80 a week.

There are many sets of benefit conditions, of course, which would result in approximately the same costs and any one of them would do equally well for the purpose of these estimates. Instead of a flat-rate of 50 percent of weekly earnings up to \$80 a week, a State might use a formula which would permit claimants with less than average wages to receive somewhat more than 50 percent, and those with greater than average incomes to receive somewhat less. One such formula resulting in approximately the same costs as the above formula is 60 percent of the first \$25 of weekly wages plus 40 percent of the next \$55. One formula with dependents' allowances resulting in approximately the same costs as the above formulas is 60 percent of

<sup>1</sup> See Unemployment Benefits, Wages, and Living Costs, Social Security Bulletin, April 1948, pp. 3-9.



the first \$30 of weekly wages, plus 30 percent of the next \$50 of weekly wages, plus \$2 for each of the first 3 dependents, with a maximum benefit not exceeding 75 percent of earnings.

The following table shows the weekly benefit amount under these three formulas, all of which are examples of formulas with costs equal to the second set of benefit assumptions.

*Illustrative schedule of unemployment benefits using alternative formulas entailing approximately the same costs*

Weekly earnings	Benefits representing—					
	A	B	C			
	50 percent of earnings	60 percent first \$25; 40 percent next \$55	60 percent first \$30; 30 percent next \$50; plus \$2 dependents' allowance; 75 percent of weekly earnings maximum			
			No dependents	1 dependent	2 dependents	3 or more dependents
\$10.....	\$5	\$6	\$6	\$7.50	\$7.50	\$7.50
\$20.....	10	12	12	14.00	15.00	15.00
\$30.....	15	17	18	20.00	22.00	22.50
\$40.....	20	21	21	23.00	25.00	27.00
\$50.....	25	25	24	26.00	28.00	30.00
\$60.....	30	29	27	29.00	31.00	33.00
\$70.....	35	33	30	32.00	34.00	36.00
\$80.....	40	37	33	35.00	37.00	39.00

Cost equivalents of the first set of benefit assumptions might also be substituted for the particular formula chosen.

#### DURATION

With the first set of benefit conditions containing the \$25 maximum weekly benefit, the Council has assumed a uniform duration of 26 weeks of benefits. With the second set of benefit conditions, the Council has assumed a minimum duration of 13 weeks and a maximum duration of 26 weeks, with the further assumption that a week of employment or twice the benefit amount would be required for each additional week of benefits between 13 and 26 weeks. A person with 26 weeks of employment in the base year would be fully insured and entitled to the maximum duration of 26 weeks of benefits.

Since the beginning of the program, there has been a marked trend toward longer duration; the two patterns assumed therefore seem realistic in the light of recent developments. These are the facts:

1. The fraction of base-year earnings used in determining duration has been increased somewhat since the beginning of the program, but a more pronounced increase has occurred in the maximum weeks of benefits to which workers are entitled. In 1937, the maximum duration was 16 weeks or less in all but 6 States; 43 States now provide a maximum of more than 16 weeks, and 7 pay benefits for a maximum of 26 weeks. Now, 87 percent of the covered workers are in States with a maximum of 20 weeks or more, as compared with only 12 percent in 1937.

2. Minimum duration has been increased in nearly all States, though not so markedly as maximum duration. Changes in the minimum duration have resulted from adopting a uniform duration, or from setting

a statutory minimum duration, or, most frequently, from changing the relationships between qualifying earnings, weekly benefit amount, and fraction of base-period earnings used to compute duration. While there has never been any pronounced concentration of minimum-duration provisions at or near a specific figure, the average minimum duration has increased from about 7 weeks in 1940 to about 10 weeks at present.

3. Because of liberalization of State laws, as well as increases in annual earnings on which duration is based in most States, potential duration has risen from an average of 13 or 14 weeks in 1941 and 1942 to approximately 20 weeks in 1947.

#### ELIGIBILITY REQUIREMENTS

Under the set of conditions with the \$25 maximum weekly benefit, the Council assumed that 13 weeks in the base period would make a worker eligible for 26 weeks of unemployment benefits. In the other set of conditions, the Council assumed that claimants who had been employed for 13 weeks in the base period would be eligible for the minimum duration of 13 weeks of benefits and that duration would increase for every week of employment in the base period up to a maximum of 26 weeks. It is not expected that these assumptions would significantly change the proportion of unemployed workers who would earn eligibility for benefits under present laws.

#### WAITING PERIOD

Both sets of benefit assumptions use a 1-week waiting period. In 1948, 43 States had a waiting period of this length or less. The trend toward reduction of the waiting period is indicated by the fact that in 1938 all States required a waiting period of 2 to 4 weeks; while, in 1948, only 8 States had a 2-week waiting period, and none required 3 or 4 weeks.

### III. GENERAL PROCEDURES USED IN ESTIMATING COSTS

Mr. Woytinsky's monograph, entitled "Principles of Cost Estimates in Unemployment Insurance,"<sup>2</sup> provided the ground work for estimating costs. The "favorable" and "medium patterns" described by Mr. Woytinsky are practically the same as the 2-to-5-million and 2-to-10-million unemployment cycles assumed in these estimates.

The estimated cost rates (benefits as a percent of taxable wages) shown in the Woytinsky monograph—for a uniform duration of 26 weeks and benefits of 50 percent of previous weekly earnings up to a maximum weekly benefit of \$25—ranged from 1.4 to 1.7 percent for the favorable pattern and from 1.8 to 2.0 percent for the medium pattern. These benefit assumptions are the same as one set of benefit assumptions made by the Council. To arrive at the costs of the other set of benefit assumptions described in part II of this appendix, each of the differences between those assumptions and the Woytinsky benefit assumptions was analyzed.

1. *A weekly benefit of 50 percent of the weekly earnings up to a maximum benefit of \$40 or its equivalent.*—Mr. Woytinsky assumed a

<sup>2</sup> Op. cit.

maximum benefit of \$25 and 50 percent of weekly earnings up to this maximum. Raising the maximum from \$25 to \$40 would increase costs by about 20 percent, according to estimates based on the distribution of high-quarter earnings of workers covered by the old-age and survivors insurance program. This 20-percent increase, applied to Mr. Woytinsky's estimates, yielded cost rates for the higher-cost benefit assumptions of 1.7 to 1.9 percent for the favorable pattern and 2.2 to 2.4 percent for the medium pattern, assuming a uniform duration of 26 weeks.

2. *A week of benefits for each week of employment during the base period, not to exceed 26 weeks.*—It was estimated that, under these assumptions, potential duration would average 24 weeks during peak employment years. Costs over a 10-year cycle under a program providing uniform duration of 24 weeks were estimated by interpolating Mr. Woytinsky's estimates for uniform duration of 20 and 26 weeks. The combination of raising the maximum to \$40 and a uniform duration of 24 weeks results in estimated costs of 1.7 to 1.9 percent for the favorable pattern of unemployment and 2.1 to 2.3 percent for the medium pattern. The Council assumes variable rather than uniform duration, however; and a slight additional downward adjustment is necessary, for, although potential duration would average 24 weeks during good years, it would probably drop below that figure during a depression.

3. *Minimum eligibility requirement of 13 weeks of employment.*—Mr. Woytinsky assumed that the proportion of claimants ineligible for benefits because of insufficient wage credits would remain about the same as in past experience. With very few exceptions, eligibility provisions under State laws are such that claimants must have worked about 13 weeks on the average to be eligible for benefits. The assumed eligibility requirement, therefore, would not materially increase or decrease present costs.

4. *Increase in the tax base to \$4,200.*—Mr. Woytinsky's estimates are based on the assumption that the first \$3,600 of annual earnings would be taxable. If the tax base were raised to \$4,200, as the Council recommends, costs under the formula providing a \$25 weekly maximum for 26 weeks would probably not exceed 1.5 percent over the cycle with 2 to 5 million unemployed, or 1.8 percent over the cycle with 2 to 10 million unemployed. Comparable figures for the more liberal benefit assumptions would be 1.7 percent and 2.0 percent.

The above figures are cost figures for the country as a whole. To arrive at a minimum contribution rate which would be appropriate for the majority of States, it is necessary first to develop cost figures for the individual States and then, in setting the rate, to take into account a reasonable utilization of existing reserves State by State.

Actual experience during the past 10 years provided the basis for estimating benefit costs for the States, but the experience during the war years of 1942-44 was excluded as not typical of what is anticipated during the next 10 years. Costs were calculated for each State for all other years. The effect of differences in benefit provisions was then eliminated by estimating what the costs would have been under a uniform formula. In this way, a cost relationship among the States based on their past benefit experience was established. The same re-



lationship was assumed in estimating costs under the two benefit assumptions and the two economic assumptions in this report. (See tables C and F of this appendix.)

#### IV. SETTING THE MINIMUM CONTRIBUTION RATE

The problem in setting the minimum contribution rate was to arrive at a rate which would support the assumed level of benefits in most States over the next 10 years, taking into account the utilization of existing reserves. As has been indicated, the Council made estimates for the individual States for two sets of benefit assumptions under two hypothetical economic conditions. Under either set of economic assumptions, a contribution rate of 1.2 percent, required as a minimum by the Federal Government, seems reasonable for either of the assumed benefit levels.

According to our estimates, the minimum rate of 1.2 percent would be applicable to at least 30 States within a relatively narrow range of adjustment in benefits or contributions under all four sets of assumptions. Contributions in five States would undoubtedly have to be higher to support a benefit structure that could be considered adequate, and benefit costs in three others are so low that reserves would increase under even more pessimistic assumptions than 2 to 10 million unemployed. The 1.2 percent rate is reasonably applicable to various States among the remaining 13 depending on which set of assumptions is used and how large a reserve is assumed to be desirable at the end of the 10-year cycle. Below is an analysis of the effect of the 1.2 percent minimum rate under the two assumed levels of benefits, in each case discussed under the two sets of hypothetical economic conditions.

##### A. THE EQUIVALENT OF 50 PERCENT OF AVERAGE WAGES UP TO A MAXIMUM BENEFIT OF \$40 A WEEK <sup>3</sup>

Under the more liberal benefit assumption and assuming that unemployment will range between 2 and 5 million, a 1.2 percent contribution rate (0.6 percent payable by employers and 0.6 percent by employees) over the next 10-year cycle would, on the basis of past benefit experience, result in there being 26 States with reserves at the end of the cycle of from 5.0 to 9.9 percent of taxable pay rolls (table C, p. 198). In 13 States, the reserves at the end of the 10-year cycle would be less than 5 percent of taxable wages, and in 12 States the reserves would be more than 10 percent.

Of the 13 States whose reserve ratios would be less than 5 percent, 5 (Alabama, Massachusetts, Michigan, New York, and Rhode Island) would have exhausted their reserves completely if they provided benefits as liberal as those assumed and charged no more than the 1.2 percent rate. Table D, p. 199, indicates the tax rates which these 13 States would have to charge on the basis of past benefit experience if they were to end the 10-year cycle with reserves representing either 3 percent or 5 percent of taxable wages.

<sup>3</sup> Pt. II of this appendix describes these benefit assumptions in detail.



TABLE C.—*Estimated average annual benefit costs and State unemployment reserves as a percent of taxable wages<sup>1</sup> at the end of a 10-year cycle with a uniform contribution rate of 1.2 percent and a \$40 maximum benefit formula<sup>2</sup>*

State	Percent of taxable wages				
	Reserves as of June 30, 1948	A. Assuming 2 to 5 million unemployed		B. Assuming 2 to 10 million unemployed	
		Cost of average annual benefits	Reserves at end 10-year cycle with contribution rate of 1.2 percent	Cost of average annual benefits	Reserves at end 10-year cycle with contribution rate of 1.2 percent
	I	II	III	IV	V
Average, 51 States.....	8.3	1.7	4.4	2.0	1.1
Alabama.....	5.8	1.9	—3	2.2	—3.9
Alaska.....	10.3	1.5	9.1	1.8	5.8
Arizona.....	9.3	1.6	6.8	1.9	3.4
Arkansas.....	9.2	1.6	6.6	1.9	3.3
California.....	10.6	2.3	.6	2.7	—3.8
Colorado.....	8.6	1.4	8.1	1.6	5.9
Connecticut.....	10.8	1.5	9.7	1.8	6.4
Delaware.....	6.6	1.3	6.8	1.5	4.6
District of Columbia.....	8.5	.8	14.6	.9	13.5
Florida.....	7.1	1.5	5.2	1.8	1.9
Georgia.....	8.5	1.1	10.3	1.3	9.1
Hawaii.....	9.6	.8	15.9	.9	14.8
Idaho.....	10.8	1.4	10.8	1.6	8.6
Illinois.....	6.9	1.6	3.9	1.9	.6
Indiana.....	7.2	1.5	5.3	1.8	2.0
Iowa.....	8.1	1.4	7.5	1.6	5.4
Kansas.....	8.5	1.7	4.7	2.0	1.4
Kentucky.....	12.3	1.5	11.4	1.8	8.1
Louisiana.....	9.4	1.7	5.8	2.0	2.5
Maine.....	9.1	2.1	.2	2.5	—3.4
Maryland.....	9.5	1.7	5.9	2.0	2.6
Massachusetts.....	5.2	1.9	—1.5	2.2	—4.8
Michigan.....	5.1	1.9	—1.6	2.2	—4.9
Minnesota.....	8.7	1.4	8.2	1.6	6.0
Mississippi.....	10.8	1.3	11.8	1.5	9.7
Missouri.....	8.4	1.9	2.4	2.2	—9
Montana.....	12.0	1.5	11.1	1.8	7.7
Nebraska.....	7.3	1.1	9.9	1.3	7.5
Nevada.....	13.4	1.5	12.8	1.8	9.8
New Hampshire.....	9.0	1.6	6.4	1.9	3.1
New Jersey.....	13.3	2.1	6.0	2.5	1.9
New Mexico.....	8.9	1.1	10.8	1.3	9.6
New York.....	8.2	2.1	—1	2.5	—4.8
North Carolina.....	10.3	1.1	13.5	1.3	11.2
North Dakota.....	5.6	1.3	5.6	1.5	3.4
Ohio.....	9.2	1.3	9.9	1.5	7.7
Oklahoma.....	5.9	1.5	3.8	1.8	.4
Oregon.....	8.7	1.6	6.0	1.9	2.7
Pennsylvania.....	7.9	1.6	5.1	1.9	1.8
Rhode Island.....	8.4	2.5	—4.8	2.9	—8.6
South Carolina.....	7.9	1.1	10.6	1.3	8.4
South Dakota.....	5.7	1.1	7.9	1.3	5.7
Tennessee.....	8.8	1.6	6.1	1.9	2.8
Texas.....	6.1	1.3	6.2	1.5	4.0
Utah.....	11.2	1.6	9.0	1.9	5.7
Vermont.....	9.7	1.4	9.4	1.6	7.2
Virginia.....	7.0	1.1	9.5	1.3	7.3
Washington.....	10.4	2.3	.4	2.7	—4.0
West Virginia.....	7.3	1.6	4.4	1.9	1.1
Wisconsin.....	10.3	.8	17.1	.9	15.6
Wyoming.....	8.5	1.3	9.1	1.5	6.9

<sup>1</sup> "Taxable wages" have been increased to take account of the Council's recommendations for extension of coverage and for an increase in the maximum tax base to \$4,200 a year.

<sup>2</sup> Pt. II of this appendix describes these benefit assumptions in detail.

TABLE D.—*Estimated State unemployment contribution rates in high-cost States necessary to maintain reserves of 3 or 5 percent of taxable wages at the end of a 10-year cycle using a \$40 maximum benefit formula and assuming 2 to 5 million unemployed*<sup>1</sup>

State	Contribution rates for—		State	Contribution rates for—	
	3 percent reserve ratio	5 percent reserve ratio		3 percent reserve ratio	5-percent-reserve ratio
	Percent	Percent		Percent	Percent
Alabama.....	1.5	1.7	Missouri.....	1.3	1.4
California.....	1.4	1.6	New York.....	1.5	1.7
Illinois.....	<sup>2</sup> 1.2	1.3	Oklahoma.....	<sup>2</sup> 1.2	1.4
Kansas.....	<sup>2</sup> 1.2	1.3	Rhode Island.....	1.8	2.0
Maine.....	1.4	1.6	Washington.....	1.4	1.6
Massachusetts.....	1.6	1.8	West Virginia.....	<sup>2</sup> 1.2	1.3
Michigan.....	1.6	1.8			

<sup>1</sup> Pt. II of this appendix describes these benefit assumptions in detail.

<sup>2</sup> Under Council recommendations 1.2 would be the minimum rate so that no rates below this figure have been included.

The reserves of 8 States would not only increase over the 10-year cycle but would be more than 10 percent of taxable wages at the end of the cycle. In 4 (Georgia, New Mexico, North Carolina, and South Carolina) of these 8 States, the benefit costs are estimated at 1.1 percent of taxable wages. In Mississippi, with costs of 1.3 percent, reserves would also increase because of the interest on the fund. According to their past benefit experience, these States would be able to charge the minimum rate and provide benefits somewhat more liberal than those assumed in our estimates. In 3 jurisdictions (District of Columbia, Hawaii, and Wisconsin), the increase in reserves would be substantial under our assumptions, since the estimated cost of benefits for each is only 0.8 percent.

For the country as a whole reserves under these assumptions would be reduced over the next 10-year cycle from the present average level of 8.3 percent of taxable wages to 4.4 percent.

Using the same benefit assumptions and applying the past benefit experience of the States, but assuming 2 to 10 million unemployed and a contribution rate of 1.2 percent, reserves in 21 States would be reduced below 3 percent of taxable wages at the end of the 10-year period. In 9 States (Alabama, California, Maine, Massachusetts, Michigan, Missouri, New York, Rhode Island, and Washington) reserves would be completely exhausted and the cycle would end with deficits. There would be 12 additional States (Florida, Illinois, Indiana, Kansas, Louisiana, Maryland, New Jersey, Oklahoma, Oregon, Pennsylvania, Tennessee, and West Virginia) that would either have to raise contribution rates or pay somewhat lower benefits than assumed in order to end the cycle with reserves of 3 percent or more of taxable wages under these assumptions (see table E, p. 200); but of this group of 12 States, only Illinois, Oklahoma, and West Virginia would have to increase their contribution rates by as much as 0.2 percentage point.

If, after weathering a depression of this magnitude, it still seemed desirable to start a new cycle, 10 years from now, with a reserve as high as 5 percent of taxable wages, all 27 States listed in table E would have to charge a contribution rate above the minimum or provide some-

what lower benefits. The increase would need to be only 0.1 percentage point in 2 of these States, however, only 0.2 in 7, and 0.3 in 6.

Of the 8 States whose reserves would increase over the 10-year cycle and represent more than 10 percent of taxable pay roll at the end of the cycle, assuming 2 to 5 million unemployed, 7 would also have increased reserves if 2 to 10 million were unemployed (table C, p. 198). Four (District of Columbia, Hawaii, North Carolina, and Wisconsin) would have reserves of over 10 percent of taxable pay roll under the 2 to 10 million assumption as well. In the eighth State, Mississippi, reserves would decrease slightly.

TABLE E.—*Estimated State unemployment contribution rates in high-cost States necessary to maintain reserves of 3 or 5 percent of taxable wages at the end of a 10-year cycle using a \$40 maximum benefit formula and assuming 2 to 10 million unemployed*<sup>1</sup>

State	Contribution rate for—		State	Contribution rate for—	
	3 percent reserve ratio	5 percent reserve ratio		3 percent reserve ratio	5 percent reserve ratio
	Percent	Percent		Percent	Percent
Alabama.....	1.8	2.0	Missouri.....	1.5	1.7
Arizona.....	<sup>2</sup> 1.2	1.4	New Hampshire.....	<sup>2</sup> 1.2	1.4
Arkansas.....	<sup>2</sup> 1.2	1.4	New Jersey.....	1.3	1.5
California.....	1.8	2.0	New York.....	1.9	2.1
Delaware.....	<sup>2</sup> 1.2	1.3	North Dakota.....	<sup>2</sup> 1.2	1.4
Florida.....	1.3	1.5	Oklahoma.....	1.4	1.6
Illinois.....	1.4	1.6	Oregon.....	1.3	1.4
Indiana.....	1.3	1.5	Pennsylvania.....	1.3	1.5
Kansas.....	1.3	1.5	Rhode Island.....	2.3	2.5
Louisiana.....	1.3	1.4	Tennessee.....	1.3	1.5
Maine.....	1.8	2.0	Texas.....	<sup>2</sup> 1.2	1.3
Maryland.....	1.3	1.4	Washington.....	1.8	2.0
Massachusetts.....	1.9	2.1	West Virginia.....	1.4	1.6
Michigan.....	1.9	2.1			

<sup>1</sup> Pt. II of this appendix describes these benefit assumptions in detail.

<sup>2</sup> Under Council recommendations 1.2 would be the minimum rate so that no rates below this figure have been included.

#### B. THE EQUIVALENT OF 50 PERCENT OF AVERAGE WAGES UP TO A MAXIMUM BENEFIT OF \$25 A WEEK <sup>4</sup>

Under the less liberal set of benefit assumptions and using past benefit experience, our estimates indicate that a 1.2 percent contribution rate over a 2 to 5 million unemployment cycle would result in there being nine States at the end of the cycle with reserve ratios of less than 5 percent. Reserve ratios in 21 States would be between 5 and 10 percent and in 21 States over 10 percent.

Of the nine States whose reserves would be less than 5 percent of taxable pay rolls by the end of the cycle, one—Rhode Island—would undoubtedly have exhausted its reserve and incurred a deficit; three others—Alabama, Massachusetts, and Michigan—would be dangerously close to the exhaustion mark (table F). Under these assumptions, table G indicates the contribution rates that, on the basis of past benefit experience, would have to be levied in these nine States to insure reserves of 3 and 5 percent of taxable wages by the end of the cycle.

<sup>4</sup> Pt. II of this appendix describes these benefit assumptions in detail.

TABLE F.—*Estimated average annual benefit costs and State unemployment reserves as a percent of taxable wages<sup>1</sup> at the end of a 10-year cycle with a uniform contribution rate of 1.2 percent and a \$25 maximum benefit formula<sup>2</sup>*

State	Percent of taxable wages				
	Reserves as of June 30, 1948	A. Assuming 2 to 5 million unemployed		B. Assuming 2 to 10 million unemployed	
		Cost of average annual benefits	Reserves at end 10-year cycle with contribution rate of 1.2 percent	Cost of average annual benefits	Reserves at end 10-year cycle with contribution rate of 1.2 percent
	I	II	III	IV	V
Average, 51 States.....	8.3	1.5	6.7	1.8	3.4
Alabama.....	.8	1.7	1.5	2.0	-1.8
Alaska.....	10.3	1.3	11.3	1.6	8.0
Arizona.....	9.3	1.4	9.0	1.7	5.7
Arkansas.....	9.2	1.4	8.8	1.7	5.5
California.....	10.6	2.0	3.9	2.4	-6
Colorado.....	8.6	1.2	10.3	1.4	8.1
Connecticut.....	10.8	1.3	11.9	1.6	8.6
Delaware.....	6.6	1.1	9.0	1.4	5.7
District of Columbia.....	8.5	.7	15.7	.8	14.6
Florida.....	7.1	1.3	7.4	1.6	4.1
Georgia.....	8.5	1.0	12.4	1.2	10.2
Hawaii.....	9.6	.7	17.0	.8	15.9
Idaho.....	10.8	1.2	13.0	1.4	10.8
Illinois.....	6.9	1.4	6.1	1.7	2.8
Indiana.....	7.2	1.3	7.5	1.6	4.2
Iowa.....	8.1	1.2	9.7	1.4	7.5
Kansas.....	8.5	1.5	6.9	1.8	3.6
Kentucky.....	12.3	1.3	13.7	1.6	10.4
Louisiana.....	9.4	1.5	8.0	1.8	4.8
Maine.....	9.1	1.8	4.3	2.2	-1
Maryland.....	9.5	1.5	8.1	1.8	4.8
Massachusetts.....	5.2	1.7	.7	2.0	-2.6
Michigan.....	5.1	1.7	.7	2.0	-2.7
Minnesota.....	8.7	1.2	10.4	1.4	8.2
Mississippi.....	10.8	1.1	14.1	1.3	11.9
Missouri.....	8.4	1.7	4.6	2.0	1.3
Montana.....	12.0	1.3	13.3	1.6	10.0
Nebraska.....	7.3	1.0	11.0	1.2	8.8
Nevada.....	13.4	1.3	15.0	1.6	11.7
New Hampshire.....	9.0	1.4	8.6	1.7	5.3
New Jersey.....	13.3	1.8	9.4	2.2	5.0
New Mexico.....	8.9	1.0	12.9	1.2	10.7
New York.....	8.2	1.8	3.2	2.2	-1.2
North Carolina.....	10.3	1.0	14.6	1.2	12.3
North Dakota.....	5.6	1.1	7.8	1.4	4.5
Ohio.....	9.2	1.1	12.1	1.4	8.8
Oklahoma.....	5.9	1.3	6.0	1.6	2.7
Oregon.....	8.7	1.4	8.2	1.7	4.9
Pennsylvania.....	7.9	1.4	7.3	1.7	4.0
Rhode Island.....	8.4	2.2	-.8	2.6	-5.3
South Carolina.....	7.9	1.0	11.7	1.2	9.5
South Dakota.....	5.7	1.0	9.0	1.2	6.8
Tennessee.....	8.8	1.4	8.4	1.7	5.1
Texas.....	6.1	1.1	8.4	1.3	6.2
Utah.....	11.2	1.4	11.2	1.7	7.9
Vermont.....	9.7	1.2	11.6	1.4	9.4
Virginia.....	7.0	1.0	8.6	1.2	8.4
Washington.....	10.4	2.0	3.6	2.4	-2.9
West Virginia.....	7.3	1.4	6.6	1.7	3.3
Wisconsin.....	10.3	.7	17.9	.8	16.8
Wyoming.....	8.5	1.1	11.3	1.3	9.1

<sup>1</sup> "Taxable wages" have been increased to take account of the Council's recommendations for extension of coverage and for an increase in the maximum tax base to \$4,200 a year.

<sup>2</sup> Pt. II of this appendix describes these benefit assumptions in detail.



TABLE G.—*Estimated State unemployment contribution rates in high-cost States necessary to maintain reserves of 3 or 5 percent of taxable wages at the end of a 10-year cycle using a \$25 maximum benefit formula and assuming 2 to 5 million unemployed*<sup>1</sup>

State	Contribution rate for—		State	Contribution rate for—	
	3 percent reserve ratio	5 percent reserve ratio		3 percent reserve ratio	5 percent reserve ratio
	<i>Percent</i>	<i>Percent</i>		<i>Percent</i>	<i>Percent</i>
Alabama.....	1.4	1.6	Missouri.....	<sup>2</sup> 1.2	1.3
California.....	<sup>2</sup> 1.2	1.4	New York.....	<sup>2</sup> 1.2	1.4
Maine.....	<sup>2</sup> 1.2	1.3	Rhode Island.....	1.6	1.8
Massachusetts.....	1.4	1.6	Washington.....	<sup>2</sup> 1.2	1.3
Michigan.....	1.4	1.6			

<sup>1</sup> Pt. II of this appendix describes these benefit assumptions in detail.

<sup>2</sup> Under Council recommendations 1.2 would be the minimum rate so that no rates below this figure have been included.

Of the 21 States whose reserves are shown as exceeding 10 percent of taxable wages (table F, p. 201), by the end of the cycle, 1 would have benefit costs of 1.4 percent of taxable wages and 11 would have costs of 1.1 to 1.3 percent. These States would be able to charge the minimum rate of 1.2 percent and provide benefits more liberal than those on which these estimates were based. In the other 9, costs would be so low judging by past benefit experience that, with a 1.2 percent tax rate and benefits limited to those in the assumptions, reserves would continue to grow considerably even if unemployment rose above 10 million.

Applying these benefit assumptions to a business cycle with unemployment of 2 to 10 million, it was estimated that, by the end of the 10-year period, reserves in 11 States would be less than 3 percent of taxable wages. In 8 States (Alabama, California, Maine, Massachusetts, Michigan, New York, Rhode Island, and Washington) reserves would be completely exhausted and the respective State programs would have incurred a deficit by the end of the cycle. The other 3 States (Illinois, Missouri, and Oklahoma) would have to increase their contribution rates if they paid such benefits and ended the cycle with a 3 percent reserve. Of these 3 States, only Missouri might have to increase its rate by as much as 0.2 percentage point.

If, at the end of such a cycle, it seemed desirable to have a reserve as high as 5 percent of taxable wages, the 20 States shown in table H would have to levy contribution rates higher than the 1.2 percent minimum if they were to provide such benefits. Eight of these States would have to increase their rates by only 0.1 percentage point; and 3 by only 0.2. Of the 21 States whose reserve would be more than 10 percent of taxable wages at the end of a cycle with 2 to 5 million unemployment, 11 would also have reserves representing more than 10 percent of taxable wages at the end of a cycle with unemployment of 2 to 10 million.

Assuming the continuation of past benefit experience, costs in the District of Columbia, Hawaii, and Wisconsin under these assumptions would be so low as to increase their reserves substantially.

TABLE H.—*Estimated State unemployment contribution rates in high-cost States necessary to maintain reserves of 3 or 5 percent of taxable wages at the end of a 10-year cycle using a \$25 maximum benefit formula and assuming 2 to 10 million unemployed*<sup>1</sup>

State	Contribution rate for—		State	Contribution rate for—	
	3 percent reserve ratio	5 percent reserve ratio		3 percent reserve ratio	5 percent reserve ratio
	<i>Percent</i>	<i>Percent</i>		<i>Percent</i>	<i>Percent</i>
Alabama.....	1.6	1.8	Michigan.....	1.7	1.9
California.....	1.5	1.7	Missouri.....	1.4	1.6
Florida.....	<sup>2</sup> 1.2	1.3	New York.....	1.6	1.8
Illinois.....	1.3	1.4	North Dakota.....	<sup>2</sup> 1.2	1.3
Indiana.....	<sup>2</sup> 1.2	1.3	Oklahoma.....	1.3	1.4
Kansas.....	<sup>2</sup> 1.2	1.3	Oregon.....	<sup>2</sup> 1.2	1.3
Louisiana.....	<sup>2</sup> 1.2	1.3	Pennsylvania.....	<sup>2</sup> 1.2	1.3
Maine.....	1.5	1.7	Rhode Island.....	2.0	2.2
Maryland.....	<sup>2</sup> 1.2	1.3	Washington.....	1.5	1.7
Massachusetts.....	1.7	1.9	West Virginia.....	<sup>2</sup> 1.2	1.4

<sup>1</sup> Pt. II of this appendix describes these benefit assumptions in detail.

<sup>2</sup> Under Council recommendations 1.2 would be the minimum rate so that no rates below this figure have been included.

#### APPENDIX IV-B. PAYMENTS ON ERRONEOUS AND FRAUDULENT CLAIMS

The Social Security Administration and the States have for some time been concerned with the problem of payments on erroneous and fraudulent claims. The Interstate Conference of Employment Security Agencies has for several years made special studies and recommendations in this field. The first committee on fraud, organized in 1941, later issued the 1942 Report of Interstate Conference Committee on Fraudulent and Other Illegal Benefit Payments. A second report was made in September 1943. The third report of the Subcommittee on Fraud Prevention and Detection was submitted to the interstate conference on July 30, 1948. It summarized present State practices and made several recommendations. This subcommittee reported:

Fragmentary evidence, which has come to our attention as a byproduct of our study of the devices for the prevention and detection of fraud, leads us to believe that erroneous payments as a whole do not exceed 1 percent of all benefit payments, and that payments caused by deliberate fraud with criminal intent do not exceed one-half of 1 percent of the total amount of disbursements. However, disbursements of the State unemployment insurance program run into hundreds of million of dollars each year and, small as it is percentagewise, the loss traceable to fraud is great.

The subcommittee believed that strict controls over claims were the first essential and that they would reduce fraud to that "clear-cut type of criminal activity which never can be entirely eradicated." Among the methods of claims control now being used, the committee listed the following as the most effective in preventing improper claims:

1. Weekly reporting of claims in person.
2. Contacts with the claimants' previous employers to obtain information on the causes of their unemployment.
3. Testing each claimant's availability for work and ability to work through offers of jobs by the Employment Service.
4. Current checks on the claimants' own job-seeking endeavors.
5. Periodic analysis of comprehensive questionnaires, prepared by claimants to substantiate their eligibility for benefits.
6. Frequent interviews of claimants by thoroughly qualified claims examiners.

The subcommittee favored constructive publicity showing that the State agency utilizes reasonable control over claims, prosecutes violations, and obtains convictions with real penalties. Such publicity might serve as an active deterrent to fraud. There was fear, however, that some types of publicity limited to a few sensational cases actually encouraged people to file fraudulent or improper claims.

The subcommittee also favored the establishment of a fraud investigation unit as a device which saves money. Many States would need only a small unit, but, as a desirable minimum, each State should have at least one specialist in fraud investigation and fraud control devoted

ing full time to investigation, devising control measures, training claims takers, etc.

The Federal authorities also believe that each State should have a positive program to keep fraud at an inconsequential minimum, and that the first step in fraud prevention is to use proper claims procedures. These procedures include requirements for claimant reporting; adequate explanation to claimants of eligibility conditions; the use of separation information and information concerning failures to respond to call-ins or to accept referrals or jobs through the employment services; adequate fact-finding when claims issues arise; the use of claimant questionnaires and special claimant interviews. Sound basic procedures, adequate supervision, and intensive training are important in these operations, and the more effective the results, the less will be the need for the extensive use of special methods to prevent and detect fraud.

Several specific methods to improve procedures have been used in some States, and the Bureau of Employment Security recommends their use in other States:

1. Refusal to take continued claims during the noon hours when employed claimants could most easily visit the local office.

2. Rotation of the time for claimants' reporting.

3. Rotation of claims takers' stations.

4. Particular attention to claimants who delay filing initial claims for a considerable period after they lose their employment, to claimants who often fail to report at their scheduled appointments, and to claimants who leave the office without waiting a reasonable time for adjustment or other special interviews. Substitutes for the social security account number card should never be accepted when claims are filed, and the verification of the signature on continued claims should be a required practice.

Three other techniques have been used effectively by some States, but their results must be constantly checked since considerable costs are involved:

1. Accession notices have been used in Connecticut and Maryland with considerable success. Workers know that, when they are hired, their employer must send an accession notice to the employment office. This requirement tends to prevent fraud; it also permits the State agency to catch some fraudulent claims before payments actually begin. The system would be much more effective if all employers were required to file such notices and not just covered employers.

2. In a larger number of States a check of employee wage reports is made to find persons who might have drawn wages at the same time they were receiving benefits. This check can be done rather simply by mechanical means, and cases of apparent discrepancies can be individually investigated. The check can be made against old-age and survivors insurance records if a State keeps no wage reports.

3. Special industrial surveys can be made by field workers or merely by telephone. Fraud seems to concentrate in certain spots in certain occupations. Interstate claims may become especially troublesome. Particular attention to these troubled areas may yield greater results than would any system of over-all investigation.



APPENDIX IV-C. MEMORANDUM BY FIVE MEMBERS DISSENTING FROM  
THE MAJORITY REPORT WITH RESPECT TO CONTINUATION OF UNEMPLOYMENT  
INSURANCE AND THE EMPLOYMENT SERVICE ON A STATE  
BASIS

There are important advantages in a national system of unemployment insurance. These advantages lead some members of the Council to prefer a national plan to the present State-Federal system. Indeed, these members of the Council believe that experience under a State-Federal plan will ultimately compel a shift to a national plan. Four of the members of the Council who prefer a national plan of unemployment compensation believe, however, that the existing State-Federal plan should be immediately improved. They have therefore signed the recommendations of the Council, believing that these recommendations, if adopted, would not impose any obstacles to a later shift to a national plan. Mr. Rieve concurs in this minority dissent but is not signing the recommendations of the Council since he disagrees with some of the most important ones. His views are explained in a concurring dissent at the end of this appendix.

The members of the Council who prefer a national plan but who have signed the report believe that the report should contain a statement of the reasons for their preference for a national plan. They believe the following are the principal reasons for preferring a national plan.

A NATIONAL ECONOMY REQUIRES A TRULY NATIONAL SYSTEM

The fundamental fallacy in the present structure of unemployment insurance and the employment service in this country is that it is premised upon the theoretical considerations of State-by-State political organization rather than upon the realities of our national economic organization. Employment, unemployment, prices, profits, and taxes are largely determined by Nation-wide influences. Employment or unemployment in the automobile industry in Michigan or in the steel industry in Pennsylvania or the coal industry in West Virginia is not the result of conditions or policies arising within the particular State. Why then should the contribution rate, benefit amounts, and other essential factors be varied on a State basis?

The argument is made by those advocating a State system that the determination of the existence of unemployment is an individual and local matter. This statement is true, but such a determination can and should be made on the basis of standards applicable throughout the country. The experience gained through the operation of the Federal old-age and survivors insurance program indicates that local and personalized administration can be achieved under a Federal law and uniform Federal standards.

The most apparent inconsistency in the administration of the present program is the fact that while there are numerous local labor markets which cross State lines, the local offices for unemployment insurance and employment service are organized and operated in accordance with the fortuitous State boundaries. Although various techniques have been tried to assure a more effective operation in labor-market areas crossing State lines, the effort has been largely ineffective because of the natural insistence of governors, State legislatures, and State and local directors to think in terms of State sovereignty and responsibility.

There are nearly 50 natural labor-market areas in the United States which cut across State lines. In these areas the number of individuals in the labor force represent a substantial proportion of the total labor force of the entire country. Among the outstanding examples of markets which cross State lines are the following: St. Louis, Mo., and East St. Louis, Ill.; Kansas City, Mo., and Kansas City, Kans.; Philadelphia, Pa., and Camden, N. J.; Duluth, Minn., and Superior, Wis.; Washington, D. C., and adjacent Maryland and Virginia; New York City and adjacent Connecticut and New Jersey. Only a service organized and administered day-by-day on the principle of a Nation-wide service can break down the psychological and political separatism which now permeates the system.

#### DISCRIMINATION AMONG EMPLOYERS

Under the existing State-by-State systems, employers are required to submit different forms, comply with different procedures, and pay different contribution rates in accordance with varying State laws. An employer operating on a Nation-wide basis is required to submit quarterly wage reports on individual employees in some States but must submit separation reports on individual employees in others. The forms for many reports differ among the States.

Some progress has been made in the States, under the pressure of action for a Federal system, to simplify the forms and eliminate the haphazard variations which still exist. However, in view of the fact that the Federal Government already collects wage reports from employers for the Federal old-age and survivors insurance program, the cost of administration could be greatly reduced and employers relieved of part of the present bookkeeping burden and inequities by utilizing one report to the Federal Government for all social-insurance contributions.

There is no uniform definition of the terms "employment" or "employee" under the State laws nor even a uniform interpretation among those States which have identical provisions. The result is that employers are sometimes required, without sound justification, to comply with several different State laws. Nation-wide employers who have isolated representatives in many different States have a legitimate complaint about the unnecessary burden which is placed upon them by the necessity of complying with a multiplicity of varying State laws and varying reporting requirements.

## DISCRIMINATION AMONG EMPLOYEES

Under the existing State-by-State system, the amount and duration of benefits as well as most other conditions relating to eligibility and disqualification for benefits are determined exclusively by State law and State interpretation. Although in Nation-wide industries—such as automobiles, steel, coal, shipping, and textiles—wages, hours, and working conditions, as well as prices, are determined on a Nation-wide basis, unemployment insurance benefits are determined on a State-by-State basis. Thus, though two individuals receive the same wages and work the same period in the aircraft industry, for example, one, if he had worked in the State of Washington upon becoming unemployed could be eligible to receive \$25 per week for 26 weeks or a total of \$650; while the other, if he had worked in the State of Arizona could receive \$20 per week for 12 weeks or \$240.

The discrimination which also exists in such matters as eligibility conditions, waiting period, disqualification provisions, determination of suitable work, minimum amounts, appeals procedures, methods of computing the average wage of the unemployed individual, and other factors is very marked.

The case for a Federal system of unemployment insurance and employment service offices does not rest entirely on the inadequacies, discriminations, and inequities of the present State-by-State system. There is no doubt that much could be done to improve the present State-by-State system if greater authority were given to the Federal Government to set minimum standards. But even with such authority the present system would be inappropriate to deal with the employment and unemployment problem on a national basis in accordance with the economic and social requirements of our economy.

## ECONOMIC FACTORS

The variations in benefits and contributions mentioned previously are discriminatory as between individuals. No principle of equity or justice can be advanced for such variations. In addition, such variations are a hindrance to developing a Nation-wide policy designed to assure maximum employment and productivity. States with low benefits and high reserves and restrictive disqualifying requirements may be adhering to policies which thwart national policy. In brief, there is no assurance that the State programs based on State laws and State regulations will reinforce national policy aimed at meeting the needs of a national economy. Since most State legislatures meet biennially, they are often unable to make the necessary changes promptly to adjust to a national emergency involving millions of our citizens. In fact, during the war and the reconversion period policies of particular States were frequently out of accord with rapidly changing national needs.

Under a State-by-State system, the total amount of reserves must necessarily be greater than under a single Federal system. In order to safeguard each State program separately, there must be accumulated reserves which for all the States together must aggregate a far larger amount than that equally safe for a single Federal system. There is, therefore, under a State system need to levy higher contributions and build up reserves larger than would be necessary under a Federal plan.



Instead of the present \$7,000,000,000 of reserves isolated in water-tight compartments under the State-by-State system, not more than \$2,000,000,000 to \$3,000,000,000 of reserves would be necessary under a Federal system. The comparable advantages of centralized reserves in our banking system have been recognized for 35 years.

#### LACK OF UNIFORM TREATMENT

One of the major defects of the State-by-State system is that, even when uniform terms and provisions are included in State laws, there is lack of uniformity in the interpretation and application of such uniform decisions. Thus, the various State agencies and the courts have rendered dissimilar decisions on such important matters affecting the benefit rights of employees as who is an "employee," what is "suitable work," "voluntary leaving," "stoppage" of work, "available for work," and "good cause" for refusing suitable work. No basic improvement can be made in this situation without materially increasing the authority of the Federal Government. Only a Federal system can provide for a uniform and equitable interpretation of uniform statutory provisions.

#### LACK OF ENCOURAGEMENT FOR MOBILITY OF LABOR

A valuable element in the American economic system is the incentive given to the maximum utilization of individual skills in the changing need for labor. As new plants are built in new communities, new labor is required which must be drawn from other communities. This situation permits individuals to climb the economic ladder to utilize their greater skills, earn higher cash rewards, and thereby to increase national production and consumption. The various eligibility conditions of the State laws and the restrictive interpretations given of "voluntarily leaving" work, and the heavy penalties placed on "voluntary leaving" when not "attributable to the employer," all act as bars to the effective geographic and economic mobility of labor. A typical case illustrates the way in which this barrier works. An individual "voluntarily leaves" his employer to take a better paying job at a higher skill. After he works for a short period of time for his new employer, the plant burns down, the employer goes bankrupt or, for some other reason, the employee becomes unemployed *due to no fault of his own*. Under nearly half of the State laws this involuntarily unemployed individual will be denied benefits during all or part of this period of unemployment.

Another facet of this same problem is the unwillingness of a State legislature to increase the benefits under its law because of the competitive disadvantage which the employers in the State will face as against employers in other States with lower benefits and lower employer contributions. The recommendations in the body of the report will result in considerable improvement in this situation but will not entirely eliminate it. The only way in which unemployment insurance benefits can come to have a neutral effect on labor mobility is by providing a uniform national system with eligibility, amount and duration of benefits, disqualifications, and related matters on a common basis throughout the Nation.



## RECIPROCAL ARRANGEMENTS AMONG STATES

One of the serious shortcomings of the State-by-State system has been the failure, after nearly 15 years of effort, to work out a simple and effective system of reciprocal arrangements among all States as to both coverage and benefits. The present situation is costly for employers, employees, and the State agencies alike. The failure, after so many years, to achieve satisfactory administrative arrangements is an indication of the great obstacles faced by a State-by-State system in dealing with this important problem. It appears that the major reason why interstate claims are paid after a longer delay than intra-state claims is the fact that the provisions of the State laws are so complicated and diverse that speedy settlement is difficult.

## PUBLIC UNDERSTANDING

The Council, in an earlier report on old-age and survivors insurance, unanimously recommended the development of a broad informational program. The Council said then:

No social-security program can be effective unless those who are entitled to participate know their rights and obligations.

This principle is equally applicable to other areas of social insurance. In some respects it is even more applicable to unemployment insurance since unemployment is a current and recurring risk. There is ample evidence that the many complicated and technical provisions of State unemployment insurance laws have made it extremely difficult for individuals to know their benefit rights. A Federal program could greatly reduce the baffling complexities of the many State laws and thereby make it possible for both employers and employees to know their rights and duties under the law, irrespective of State-by-State variations.

## NATIONAL DEFENSE

An additional justification for the operation of a Federal employment service is the necessity for having an effective manpower program in case of a national emergency. Federalization of the employment service in time of a national emergency and subsequent return of the service to the States is not a satisfactory procedure. Such a procedure does not assure an effective Federal system during an emergency. It is disruptive of staff morale when the service is returned to the States. It is disruptive of the tenure of office, compensation, and retirement rights of the employees involved. Only a permanent Federal employment service can give assurance that there will be the most effective service available in an emergency.

## ADMINISTRATION

Although the Federal Government now pays all the costs of State administration, each State pays its employees in the employment security program on a State salary scale under State provisions with respect to tenure of office, retirement, leave, and other conditions of work. One of the chief advantages of a Federal system over a State-by-State system is that under the Federal civil service and the Federal civil-

service retirement system, better qualified staff could be recruited and could improve services to everyone.

While each form of social insurance has its characteristic administrative problems, all involve the process of determining the eligibility of claimants for benefits and all in this connection draw upon a basic skill in human relations and in the application of law and policy to individual circumstances. A unified program with one local office for all types of benefits would facilitate the kind of training of personnel that would increase the possibility of an interchange of personnel in relation to fluctuations in the staff requirements of the different parts of the system. The result would be a more efficiently administered program with greater service to employers, employees, and the public.

The Federal old-age and survivors insurance program already offers the administrative and financial basis for simplifying and improving our unemployment insurance program. One wage report from each employer can be received for all social insurance purposes. One wage record can be maintained for all benefits. One local office with suitable specialists for each of the different programs could be established. There could be one Federal agency with a single set of regional, area, and local offices. Such an organization would assure simplified administration for employees, employers, and the public, lower administrative costs, more efficient administration, and greater consistency in the application of the law to all persons in similar circumstances.

CONCURRING DISSENT BY MR. RIEVE IN SUPPORT OF A NATIONAL SYSTEM  
OF UNEMPLOYMENT INSURANCE AND IN OPPOSITION TO THE RECOM-  
MENDATIONS OF THE MAJORITY OF THE COUNCIL WITH RESPECT TO  
CONTINUATION OF UNEMPLOYMENT INSURANCE ON A STATE BASIS

I heartily agree with the four other Council members who believe in a national system of unemployment insurance. As our joint dissent explains, such a national system would make possible adequate benefits, would promote necessary mobility of labor during full employment or national defense emergencies, would meet the realities of our national economic organization, would overcome the present widespread differences in treatment of workers and of employers, and would make possible the development of a unified, comprehensive, adequate program of social insurance against the hazards of sickness, costs of medical care, old-age and survivorship, as well as unemployment.

It is already more than clear that only a national system can achieve these results. The State-Federal set-up has shortcomings even greater than those described in the majority report.

The four other members who support a national system seem to doubt that it can be obtained now. This doubt was valid during the life of the Eightieth Congress which appointed our Advisory Council, but the election has basically changed the situation. This is not the time for patchwork poultices that do not meet basic needs.

Even if a national system is not voted by this Congress, the recommendations of the majority do not contain sufficiently far-going improvements in the present State-Federal system. Employees are being asked to share half the costs of unemployment insurance with no assured gain in return. No Federal benefit standards are established, although the recommendation on disqualifications would mean improvement. Extension of coverage is certainly desirable, though not to Federal employees on a State basis. Certain minor advances in administration are more than offset by the proposal that funds be given the States for administrative purposes over and above congressional appropriations, thus confusing budgetary problems and weakening the Federal agency in its efforts to improve State programs.

It seems important to explain in more detail my opposition to this suggestion for administrative financing and the recommendation for an employee contribution.

At present employers are paying an average tax of 1.5 percent on pay rolls. The majority proposes that this be cut in half and that employees should accept a tax burden of 0.75 percent of their wages to make up the difference. This contribution amounts to a wage cut averaging 1 cent an hour. I believe that the evidence is insufficient to bolster the majority's argument that the combined flat rate will assure improvements in benefits by putting a floor under experience

rating and taxes and thus theoretically weakening employer opposition to improve benefits. The Council's own estimates show that the flat amount would not be enough for even meager increases in benefits in an important group of States, including Alabama, Massachusetts, Michigan, New York, and Rhode Island. This statement would be true even if unemployment does not rise above 5,000,000. If unemployment rises to 10,000,000, these States as well as others, such as California and Missouri, would exhaust all their reserves. These are the Council's own estimates based on what, to me, are too low benefit provisions.

I have never accepted the idea that the unemployment-insurance contribution should be split equally between employers and employees. I certainly cannot agree to the idea that workers will show sufficient interest in unemployment insurance only if they pay for it. In New Jersey, in spite of the employee contribution for this program, the CIO State industrial union council has been unable to secure representation on the State advisory council and labor has lost representation on appeals boards. A national system would make it far easier for workers to understand unemployment compensation and would permit unions to acquaint their members with their rights and to participate more actively in the various administrative processes. When one system takes the place of 51 State and Territorial systems, the number of complexities, ambiguities, and uncertainties will be reduced by approximately 50 fifty-firsts; hence, it will for the first time be possible for any one person to understand unemployment insurance in the United States.

As for administrative financing, State employment security agencies should have enough money to operate properly, just as Federal agencies should. Congress should appropriate sufficient funds for all important Government functions. I am now supporting additional Federal grants for unemployment insurance and the employment offices. But this Council would give millions of dollars back to State agencies to be used for the same purpose as the money voted by Congress. I agree with the Bureau of Employment Security in opposing this suggestion, which in the current fiscal year would have given Illinois 2.8 million dollars over and above its budgetary administrative grant, or an addition of 44 percent. Pennsylvania, Indiana, Missouri, Ohio, and Wisconsin would have received 36 to 42 percent in addition. These proportions would be increased if Congress should lower rather than increase its appropriations. Supporters of this type of financing have frankly indicated that one objective is to escape from Federal controls, whereas I believe that the Federal agency should have increasing power to promote proper performance.



# APPENDIX IV-D. PROVISIONS OF TEMPORARY DISABILITY INSURANCE LAWS AND DATA CONCERNING THEIR OPERATION

TABLE I.—Comparison of temporary-disability-insurance laws administered in connection with unemployment-insurance laws

Provision	Rhode Island	California	New Jersey	Railroad
Name of program.....	Cash sickness compensation.....	Unemployment compensation disability benefits.	Temporary disability benefits—disability during unemployment.	Railroad Unemployment Insurance Act, sickness and maternity benefits.
Type of fund.....	State fund.....	State fund and approved private plans (insured or self-insured).	State fund for State plan and disability during unemployment, and approved private plans (insured or self-insured).	Federal fund; benefits paid out of railroad unemployment account, no separate account or fund for those benefits. No additional or separate contribution.
Effective dates: Contributions.....	June 1, 1942.....	May 21, 1946.....	June 1, 1948. (See also Financing, below).....	July 1, 1947.
Benefits Coverage.....	April 1943 Same as for unemployment insurance (firms with 4 or more workers in 20 weeks) except that individual workers can elect out on religious grounds.	Dec. 1, 1946 Same as for unemployment insurance (firms with 1 worker and \$100 in a quarterly pay roll).	Jan. 1, 1949 Same as for unemployment insurance (firms with 4 or more workers in 20 weeks) except that individual workers can elect out on religious grounds.	Railroad workers covered by railroad unemployment insurance.
Financing.....	1 percent employee contribution, formerly paid for unemployment-insurance purposes.	1 percent employee contribution, formerly paid for unemployment-insurance purposes.	June 1, 1948, to Jan. 1, 1949, 0.75 percent employee contribution, out of 1 percent employee contribution formerly paid for unemployment insurance purposes. Remaining 0.25 percent employee contribution still allotted for unemployment insurance Jan. 1, 1949, and after. Workers covered by State plan pay 0.75 percent for temporary disability insurance and 0.25 percent for unemployment insurance; workers covered by private plan pay only 0.25 percent for unemployment insurance. Employers whose workers are not covered by private plan pay 0.25 percent for temporary disability insurance; after July 1, 1951, employer rate to be modified by experience rating.	Employer contribution—no additional contribution for temporary disability insurance.
Administrative financing.....	6 percent of contributions.....	5 percent of contributions.....	6 percent of contributions.....	Out of railroad unemployment insurance administration funds; 10 percent of contributions allowed for administration of both programs.
Definition of disability.....	Inability because of physical or mental condition to perform regular or customary work.	Inability because of physical or mental condition to perform regular or customary work.	Total inability to perform any work for remuneration resulting from any accident or sickness not compensable under workmen's compensation law.	Inability to work because of physical, mental, psychological, or nervous injury, illness, sickness, or disease.

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Maternity-----	Except for unusual complications as a result of childbirth, limitation of 15 weeks' benefits for a pregnancy, even if new benefit year supervenes.	No payments for any illness or injury caused by or arising out of pregnancy for first 4 weeks after termination of the pregnancy.	No payments for any period of disability due to pregnancy, childbirth, miscarriage, or abortion.	Special maternity benefits for a period beginning 57 days before expected date of childbirth, and ending 115 days later, or 31 days after child is born, whichever is later, but not more than 84 days' benefits before childbirth. Benefits for first 14 days in maternity period, and first 14 days after childbirth at 1½ times regular rate. Maternity benefits not deductible from regular duration. Disability benefits due to pregnancy not excluded from regular benefits.
Other exclusions-----			No payments for any period of disability due to willfully and intentionally self-inflicted injury, or to injuries sustained in the perpetration of a high misdemeanor.	
Benefit provisions-----	Differ in weekly amount and duration from unemployment insurance, otherwise the same.	Same as unemployment insurance.	Same as unemployment insurance.	Same as unemployment insurance.
Benefit year-----	Uniform, beginning first Sunday in April.	Individual, beginning with valid claim for either temporary disability or unemployment insurance establishes benefit year for both.	Individual, beginning with valid claim for unemployment insurance.	Uniform, beginning July 1.
Base period-----	Calendar year preceding benefit year.	First 4 of last 5 calendar quarters preceding benefit year beginning in second or third month of quarter; first 4 of last 5 calendar quarters preceding benefit year beginning in first month of quarter.	First 4 of last 5 calendar quarters preceding commencement of any period of disability.	Calendar year preceding benefit year.
Qualifying earnings--	\$100 in base period-----	30 X weekly benefit amount or 1¼ X high-quarter wages, whichever is less, but not less than \$500.	Same except for different base period.	\$150 in base period.
Weekly benefit amount.	\$6.75 to \$18, based on schedule of high-quarter wages. Unemployment insurance, \$10 to \$25, based on schedule of high-quarter wages.	\$10 to \$25 based on schedule of high-quarter wages.	do-----	Daily benefit amount of \$1.75 to \$.5, based on schedule of annual wages. \$17.50 to \$30 for 2-week registration period after the waiting period.

TABLE I.—Comparison of temporary-disability-insurance laws administered in connection with unemployment-insurance laws—Continued

Provision	Rhode Island	California	New Jersey	Railroad
Benefit provisions—Con. Duration.....	3+ to 20+ weeks, \$34 to \$64.50, based on schedule of annual wages. Unemployment insurance, 5 to 26 weeks, \$52 to \$636, based on schedule of annual wages.	9+ to 26 weeks, \$150 to \$650 computed as lesser of 26× weekly benefit amount or ¼ base-period wages.	10 to 26 weeks, \$90 to \$572 computed as lesser of 26 × weekly benefit amount or ⅓ base-period wages. 150 percent of duration for either program separately.	Uniform 130 days—26 weeks, \$227.50 to \$650.
Limit on joint duration. Waiting period.....	None 1 calendar week of disability in benefit year.	150 percent of duration for either program separately. 7 consecutive days of disability at beginning of each uninterrupted period of disability.	None 7 consecutive days of disability at beginning of each uninterrupted period of disability.	None. 7 days in first 14-day registration period in a benefit year; benefits not paid for first 4 days of sickness in subsequent 14-day registration periods.
Part weeks of disability.	No provision. Benefits paid only for complete calendar weeks of disability.	Benefits paid for any days of disability in excess of 7 in a spell, at rate of ⅓ of weekly amount.	Benefits paid for any days of disability in excess of 7 in a spell at rate of ⅓ of weekly amount, payment for part week rounded to next higher dollar.	Benefits paid for each day of disability in excess of 4 in a 14-day registration period after the waiting period.
Benefit provisions for private plans.	No provision for private plans.	Benefit rights greater than under State plan—rights at least equal in all respects, and greater in at least one.	Weekly benefits and weeks of benefits at least equal to State plan and eligibility requirements no more restrictive, except that private plans already in existence may continue throughout the period of their present contract.	No provision for private plans.
Disqualification.....		Claimant disqualified for unemployment insurance because of a labor dispute qualified for disability benefits. Claimant disqualified for unemployment insurance for voluntary leaving, discharge for misconduct, refusal of suitable work, willfully misrepresenting facts, is presumed disqualified for	No benefits for disability beginning more than 26 weeks after claimant unemployed and ineligible or disqualified.	Claimant disqualified for unemployment insurance because of a labor dispute is disqualified for disability benefits.

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Disqualifying income: Workmen's compensation.	<p>If claimant receives workmen's compensation, total of workmen's compensation and disability benefits cannot exceed 90 percent of average weekly wage on last day prior to sickness. No deduction for lump-sum payments.</p>	<p>disability benefits unless there is a finding of disability and good cause for disability-benefit payments. Claimant neither employed nor registered at a public employment office for more than 3 months preceding beginning of period of disability must prove that unemployment is due to disability and not to a withdrawal from the labor market.</p>	<p>Compensable disability excludes accident or sickness compensable under workmen's compensation law.</p>	<p>Not eligible if claimant receives workmen's compensation. If he receives it or damages for a disability or which disability benefits have been paid, agency is entitled to recover benefits from such payments.</p>
Wages	<p>Eligible even though claimant receives regular wages or part thereof while not working.</p>	<p>If claimant receives or is entitled to receive an equal or greater amount as workmen's compensation for same disability and week, not eligible for disability benefits, except that if workmen's compensation less than disability benefit, claimant is entitled to the difference.</p>	<p>If remuneration minus \$3 is less than weekly benefit, claimant receives the difference rounded to the next higher dollar.</p>	<p>Not eligible if claimant receives wages.</p>
Administrative procedures: Claims	<p>Initial and continued claims to central office by mail.</p>	<p>Initial claims to central office by mail; continued claims to 16 area offices by mail.</p>	<p>Law provides for claims in accordance with statutory provisions for filing unemployment insurance claims.</p>	<p>Initial and continued claims to appropriate one of 9 regional offices by mail. All maternity benefit claims to Chicago central office by mail.</p>
Medical certification of disability.	<p>Medical certification required on all initial claims and on continued claims when State agency considers necessary.</p>	<p>First claims must be signed by a California physician, surgeon, dentist, chiropractor, osteopath, chiropractor, by a medical officer of the U. S. Government, or by authorized California religious practitioner. Continued claims must have similar certification when State agency considers necessary, except that, on continued claims, certification from out of State may be accepted.</p>	<p>Law provides for written notice of claim for benefits by or on behalf of the claimant.</p>	<p>Applications must be signed by a doctor of medicine, an osteopath, or a dentist. Continued claims must have similar certification on agency request.</p>



TABLE I.—*Comparison of temporary-disability-insurance laws administered in connection with unemployment-insurance laws—Continued*

Provision	Rhode Island	California	New Jersey	Railroad
Required medical examination.	Agency employs part-time salaried physicians who give examinations to claimants directed by the agency to report for such examination, and pays the fee for such examination.	Agency uses panel of physicians to give examinations to claimants directed by the agency to report for such examinations, and pays the physicians a scheduled fee for each case.	Not specified.....  When directed by Commission, claimant must submit himself at intervals not more often than once a week for examination by a legally licensed physician or public health nurse designated by Commission.	Agency has designated physicians to give examinations to claimants directed by the agency to report for such examinations, and pays the physicians a scheduled fee for each case.

TABLE J.—Operations of 3 temporary-disability-insurance programs during fiscal year July 1, 1947–June 30, 1948

Item	California		Rhode Island		Railroad	
	Temporary disability (State insurance plan)	Unemployment insurance	Temporary disability insurance	Unemployment insurance	Temporary disability insurance	Unemployment insurance
Covered employment...	<sup>1</sup> 1, 637, 500	<sup>2</sup> 2, 402, 500	<sup>2</sup> 238, 200	<sup>2</sup> 238, 200	<sup>2</sup> 2, 300, 000	<sup>2</sup> 2, 300, 000
Weekly average number of beneficiaries...	18, 500	125, 450	4, 800	11, 705	<sup>4</sup> 150, 400	<sup>4</sup> 210, 000
Average number of beneficiaries as percent of covered workers.....	1. 1	5. 2	2. 0	4. 9	<sup>5</sup> 1. 2	<sup>5</sup> 1. 9
Benefits paid.....	\$19, 410, 000	\$128, 394, 500	\$4, 257, 400	\$12, 348, 400	\$26, 604, 300	\$32, 426, 200
Estimated taxable wages.....	\$4,776,036,000	\$6, 227, 058, 000	\$547, 982, 000	\$547, 982, 000	\$4,742,000,000	\$4,742,000,000
Benefits as percent of taxable wages.....	0. 41	2. 1	0. 78	2. 3	0. 56	0. 73
Funds available for benefit payments as of June 30, 1948.....	<sup>6</sup> \$70, 716, 400	<sup>6</sup> \$719, 513, 000	\$34, 079, 800	\$50, 584, 000	<sup>7</sup> \$956, 282, 500	<sup>7</sup> \$956, 282, 000

<sup>1</sup> Represents estimate of the number covered by the State plan and their wages. The difference between this figure and the employment and wages covered under unemployment insurance is the number of workers covered by private plans, and consequently not required to contribute to the State fund and not eligible for benefits under it.

<sup>2</sup> Estimated average covered employment in 1947.

<sup>3</sup> Number of workers with sufficient base period wage credits to be qualified for benefits during the fiscal year.

<sup>4</sup> Total number of different beneficiaries in the period.

<sup>5</sup> Computed as a ratio of average number of payments for a 2-week period to covered employment.

<sup>6</sup> In addition, \$106,373,500 now in the unemployment insurance account is available for transfer to the temporary disability insurance account.

<sup>7</sup> One single fund from which both benefits are paid.

# APPENDIX IV-E. STATISTICS RELATED TO UNEMPLOYMENT INSURANCE

TABLE 1.—*National summary of data on unemployment insurance operations, by years, 1938-47*

[Corrected to Dec. 10, 1948]

Item	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947
Covered employment and wages: <sup>1</sup>										
Estimated workers with wage credits (in thousands).....	27,500	30,100	31,900	37,600	43,000	44,000	43,000	43,000	45,500	45,600
Average monthly employment (in thousands).....	19,929	21,378	23,066	26,814	29,349	30,828	30,044	28,407	30,235	*32,216
Total wages in covered employment (in millions).....	\$26,200	\$29,069	\$32,450	\$42,146	\$54,796	\$68,117	\$69,139	\$66,642	\$73,403	*\$86,467
Taxable wages in covered employment (in millions).....	\$25,665	\$28,411	\$30,107	\$38,677	\$49,721	\$59,034	\$60,655	\$58,545	\$63,691	*\$72,831
Subject employers as of December 31 (in thousands).....	( <sup>2</sup> )	<sup>4</sup> 807	843	<sup>4</sup> 896	877	876	885	943	1,223	1,338
Claim and benefit activities: <sup>5</sup>										
Total number of initial claims (in thousands) <sup>6</sup> .....	9,535	9,765	11,140	8,527	6,324	1,884	1,503	<sup>7</sup> 6,049	9,828	9,724
New claims (in thousands) <sup>8</sup> .....	( <sup>3</sup> )	( <sup>3</sup> )	<sup>5</sup> 7,328	<sup>5</sup> 5,435	<sup>6</sup> 4,250	1,296	1,067	4,862	6,988	6,159
Additional claims (in thousands) <sup>8</sup> .....	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )	589	436	1,169	2,838	3,565
Estimated number of different beneficiaries (in thousands) <sup>9</sup> .....	( <sup>3</sup> )	4,336	5,043	3,311	2,680	633	523	2,891	4,461	3,984
Average weekly number of beneficiaries (in thousands).....	732	799	982	621	541	115	79	462	1,150	852
Weeks compensated, all unemployment (in thousands).....	<sup>10</sup> 38,076	<sup>10</sup> 41,554	51,084	32,295	28,158	6,004	4,124	24,261	59,915	44,325
Average weekly benefit amount for total unemployment.....	\$10.94	\$10.66	\$10.56	\$11.06	\$12.66	\$13.84	\$15.90	\$18.77	\$18.50	\$17.83
Average actual duration of benefits (in weeks) <sup>11</sup> .....	( <sup>3</sup> )	( <sup>3</sup> )	9.9	9.4	10.0	9.0	7.7	8.5	13.4	11.1
Ratio of persons exhausting benefits to first payments (percent) <sup>12</sup> .....	( <sup>3</sup> )	59.6	50.6	45.6	34.9	25.5	20.2	19.2	38.3	30.7
Total benefits paid (in millions).....	\$393.8	\$429.3	\$518.7	\$344.3	\$344.1	\$79.6	\$62.4	\$445.9	\$1,094.9	\$776.2
Interstate benefits paid (in millions).....	( <sup>3</sup> )	( <sup>3</sup> )	\$24.2	\$21.1	\$20.8	\$6.8	\$4.6	\$19.1	\$89.9	\$39.0
Ratio of benefits to collections (percent).....	<sup>13</sup> 74.3	<sup>14</sup> 64.6	60.7	34.2	30.2	6.0	4.7	38.4	120.1	70.8
Ratio of benefits to taxable wages (percent) <sup>15</sup> .....	2.2	1.5	1.7	.9	.7	.1	.1	.8	1.7	1.1

See footnotes at end of table.

TABLE 1.—*National summary of data on unemployment insurance operations, by years, 1938-47—Continued*

[Corrected to Dec. 10, 1948]

Item	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947
Financial data:										
Average rate of employer contributions (percent): <sup>16</sup>										
For the United States.....	2.75	2.72	2.69	2.58	2.17	<sup>17</sup> 2.09	<sup>17</sup> 1.92	<sup>17</sup> 1.72	<sup>17</sup> 1.43	<sup>17</sup> 1.41
For States operating under experience rating.....	2.74	2.09	2.29	2.17	1.81	<sup>17</sup> 1.85	<sup>17</sup> 1.73	<sup>17</sup> 1.68	<sup>17</sup> 1.38	<sup>17</sup> 1.40
Number of States with experience rating in effect.....	1	1	4	17	34	40	42	45	45	50
Estimated reduction in revenue as result of experience rating (in millions).....	0	\$4	\$7	\$54	\$269	<sup>17</sup> \$369	<sup>17</sup> \$485	<sup>17</sup> \$586	<sup>17</sup> \$821	<sup>17</sup> \$984
Collections (in millions) <sup>18</sup> .....	\$819	\$825	\$854	\$1,006	\$1,139	\$1,325	\$1,317	\$1,162	\$912	\$1,096
Interest (in millions).....	\$21	\$32	\$42	\$53	\$68	\$82	\$102	\$127	\$130	\$139
Funds available for benefits, as of December 31 (in billions).....	\$1.1	\$1.5	\$1.8	\$2.5	\$3.4	\$4.7	\$6.1	\$6.9	\$6.9	\$7.3

<sup>1</sup> Excludes data for railroads and allied groups, subject, as of July 1, 1939, to Federal Unemployment Insurance Act.<sup>2</sup> Includes estimates for 2 States.<sup>3</sup> Data not available.<sup>4</sup> 1939, includes estimate for District of Columbia and West Virginia; 1941, includes estimate for Pennsylvania.<sup>5</sup> Benefits first became payable as follows: 1936, 1 State (Wisconsin); 1938, 30 States; 1939, 20 States.<sup>6</sup> Central office data for 1938; local office data for other years. Figures shown for new claims, 1940-42, actually new claims disposed of (central office).<sup>7</sup> Includes some initial claims filed in Michigan not identified as new or additional.<sup>8</sup> New claims 1943-45 includes all initial claims for Texas and Wisconsin; new claims 1946 include all initial claims for Texas. Additional claims for the corresponding years exclude such claims for these States.<sup>9</sup> Represents number of new claims authorized for 1939 and number of first payments for subsequent years; 1938 through 1942 excludes Indiana and Wisconsin; data not comparable. Wisconsin excluded 1943 through June 1945; Indiana excluded January to June 1943.<sup>10</sup> Represents number of checks issued.<sup>11</sup> Duration based on all beneficiaries; computed by dividing weeks compensated for all types of unemployment by the number of first payments during the year.<sup>12</sup> Based on data for 40 States in 1939; 49 States in 1940; 48 States in 1941; 48 States in 1942; 48 States in 1943; 49 States in 1944; and 50 States in 1945. Ratio for 1939 computed by dividing exhaustions by first payments for the respective calendar year. Ratios for 1940-47 computed by dividing exhaustions for the calendar year by first payments for 12-month period ending September 30 of same year.<sup>13</sup> Based on data for 23 States paying benefits for entire year.<sup>14</sup> Based on data for 49 States paying benefits for entire year.<sup>15</sup> "Taxable wages" used here are wages under \$3,000. For some States in same years taxable wages were not in fact identical with wages under \$3,000.<sup>16</sup> Represents employer contributions including voluntary contributions, as percent of taxable wages.<sup>17</sup> Includes voluntary contributions and effect of war-risk contributions in 1943, 1944, 1945, and 1946.<sup>18</sup> Includes collections subsequently transferred to Railroad Unemployment Insurance Account.



TABLE 2.—Size of firms covered by State laws, Dec. 31, 1948

State	Minimum number of workers	Period of time	Added conditions (pay roll)	Alternative conditions
Alabama.....	8	20 weeks.....		
Alaska.....	1	At any time.....		
Arizona.....	3	20 weeks.....		
Arkansas.....	1	10 days.....		
California.....	1	At any time.....	\$100 in any quarter.....	
Colorado.....	8	20 weeks.....		
Connecticut.....	4	13 weeks.....		
Delaware.....	1	20 weeks.....		
District of Columbia.....	1	At any time.....		
Florida.....	8	20 weeks.....		
Georgia.....	8	20 weeks.....		
Hawaii.....	1	At any time.....		
Idaho.....	1	At any time.....	\$75 in any quarter.....	
Illinois.....	6	20 weeks.....		
Indiana.....	18	20 weeks.....		
Iowa.....	8	15 weeks.....		
Kansas.....	8	20 weeks.....		25 in 1 week, 8 in 20 weeks.
Kentucky.....	4	3 quarters of preceding year.....	\$50 per quarter for each worker.....	
Louisiana.....	4	20 weeks.....		
Maine.....	8	20 weeks.....		
Maryland.....	1	At any time.....		
Massachusetts.....	1	20 weeks.....		
Michigan.....	8	20 weeks.....		
Minnesota.....	1	20 weeks.....		(1).
Mississippi.....	8	20 weeks.....		
Missouri.....	8	20 weeks.....		
Montana.....	1	20 weeks.....		\$500 in a calendar year.
Nebraska.....	8	20 weeks.....		\$10,000 in any quarter.
Nevada.....	1	At any time.....	\$225 in any quarter.....	
New Hampshire.....	4	20 weeks.....		
New Jersey.....	4	20 weeks.....		
New Mexico.....	1	At any time.....	\$450 in any quarter.....	2 or more in 13 weeks. <sup>1</sup>
New York.....	4	15 days.....		
North Carolina.....	18	20 weeks.....		
North Dakota.....	8	20 weeks.....		
Ohio.....	3	At any time.....		
Oklahoma.....	8	20 weeks.....		
Oregon.....	4	At any time.....	\$500 in any quarter.....	
Pennsylvania.....	1	At any time.....		
Rhode Island.....	4	20 weeks.....		
South Carolina.....	8	20 weeks.....		
South Dakota.....	8	20 weeks.....		
Tennessee.....	8	20 weeks.....		
Texas.....	8	20 weeks.....		
Utah.....	1	At any time.....	\$140 in any quarter.....	
Vermont.....	8	20 weeks.....		
Virginia.....	8	20 weeks.....		
Washington.....	1	At any time.....		
West Virginia.....	8	20 weeks.....		
Wisconsin.....	6	18 weeks.....		\$6,000 in any year or \$10,000 in any quarter. <sup>3</sup>
Wyoming.....	1	At any time.....	\$500 in any year.....	

<sup>1</sup> Workers whose services are covered by another State through election under a reciprocal coverage agreement are included for purposes of determining employer liability.

<sup>2</sup> Employers of less than 8 (not subject to the Federal Unemployment Tax Act) outside the corporate limits of a city, village, or borough of 10,000 population or more are not liable for contributions.

<sup>3</sup> Not counting more than \$1,000 in wages per employee in applying the test of \$10,000 per quarter.

TABLE 3.—*Wage and employment qualifications for benefits under State laws, Dec. 31, 1948*<sup>1</sup>

State	Qualifying formula <sup>2</sup>		Minimum amount in		Wages in at least
	Employment	Wages	Base period	High quarter	
Alabama.....		30 x wba.....	\$120.00	\$75.01	( <sup>3</sup> ).
Alaska.....		Flat.....	150.00		
Arizona.....		30 x wba <sup>4</sup> .....	150.00		2 quarters.
Arkansas.....		30 x wba.....	150.00		
California.....		30 x wba <sup>5</sup> .....	300.00		2 quarters. <sup>6</sup>
Colorado.....		30 x wba.....	180.00		
Connecticut.....		Flat.....	240.00		2 quarters.
Delaware.....		30 x wba.....	210.00		
Dist. of Col.....		25 x wba to \$250.....	150.00		
Florida.....		30 x wba.....	150.00		2 quarters.
Georgia.....		25, 30, 40, x wba <sup>4</sup> .....	100.00	48.00	2 quarters.
Hawaii.....		30 x wba.....	150.00		
Idaho.....		25-37 x wba.....	250.00	150.00	2 quarters.
Illinois.....		Flat.....	225.00		
Indiana.....		Flat.....	250.00		\$150 in last 2 quarters.
Iowa.....		20 x wba.....	100.00		
Kansas.....		Flat.....	100.00		2 quarters or \$200 in 1 quarter.
Kentucky.....		Flat.....	300.00		
Louisiana.....		30 x wba.....	150.00		
Maine.....		Flat.....	300.00		
Maryland.....		40 x wba.....	240.00	156.00	
Massachusetts.....		Flat.....	150.00		
Michigan.....	14 weeks	( <sup>6</sup> ).....	112.14		
Minnesota.....		Flat.....	200.00		
Mississippi.....		30 x wba <sup>1</sup> .....	90.00		3 quarters. <sup>8</sup>
Missouri.....		40 x wba.....	20.00		
Montana.....		30 x wba.....	210.00		
Nebraska.....		Flat.....	200.00		
Nevada.....		30 x wba <sup>4</sup> .....	240.00		
New Hampshire.....		Flat.....	200.00		
New Jersey.....		30 x wba.....	270.00		
New Mexico.....		30 x wba.....	150.00	78.00	
New York.....		30 x wba.....	300.00	100.00	
North Carolina.....		Flat.....	130.00		
North Dakota.....		28 x wba.....	140.00		
Ohio.....	20 weeks	Flat.....	160.00		
Oklahoma.....		20 x wba.....	120.00		
Oregon.....		Flat.....	300.00		
Pennsylvania.....		30 x wba.....	240.00		
Rhode Island.....		Flat.....	100.00		
South Carolina.....		30 x wba <sup>4</sup> .....	120.00		
South Dakota.....		Flat.....	125.00	60.00	
Tennessee.....		25, 30 x wba <sup>7</sup> .....	125.00	50.00	
Texas.....		18 x wba <sup>8</sup> .....	90.00		
Utah.....		14 percent of average State wages and 150 percent of high-quarter wages.	294.00		2 quarters.
Vermont.....		30 x wba.....	180.00	50.00	
Virginia.....		20, 25 x wba <sup>7</sup> .....	100.00		
Washington.....		Flat.....	300.00		
West Virginia.....		Flat.....	300.00		
Wisconsin.....	14 weeks	( <sup>10</sup> ).....	140.00		
Wyoming.....		25 x wba.....	175.00	70.00	

<sup>1</sup> See table 5, p. 225, for minimum qualifying wages for maximum weekly benefit and table 7, p. 229, for minimum qualifying wages for maximum annual benefits.

<sup>2</sup> Based on wages or employment in a specified prior period, a 2-year period in Missouri, and a 1-year qualifying period in all other States. Weekly benefit amount abbreviated as wba.

<sup>3</sup> Claimant must have worked less than 160 hours and earned less than \$120 in 3 weeks preceding unemployment.

<sup>4</sup> If claimant failed to receive qualifying wage for weekly benefit amount computed on high-quarter wages but received qualifying wages in next lower bracket, he is considered eligible for lower weekly benefit.

<sup>5</sup> Base-period wages equal to 1½ times high-quarter wages or 30 times weekly benefit amount, whichever is less, but not less than \$300.

<sup>6</sup> Fourteen weeks of employment at \$8.01 or more.

<sup>7</sup> Minimum number of weeks applies to minimum weekly benefit only. Same step-down provision as described in footnote 4.

<sup>8</sup> Converted from 2-week period.

<sup>9</sup> Effective for uniform benefit year beginning July 4, 1948, based on average 1947 wages.

<sup>10</sup> Fourteen weeks of employment at an average wage of \$10 or more.

TABLE 4.—Waiting-period requirements under State laws, Dec. 31, 1948

State	Initial waiting period		In new benefit year	
	Weeks of total unemployment	Weeks of partial unemployment	Not to interrupt consecutive weeks of benefits	May be served in last week of old year
Alabama.....	1	2	X	-----
Alaska.....	1	1	X	-----
Arizona.....	1	1	X	X
Arkansas.....	1	1	X	-----
California.....	1	1	X	X
Colorado.....	2	2	X	-----
Connecticut.....	1	1	X	-----
Delaware.....	1	1	X	-----
Distriet of Columbia.....	1	1	-----	-----
Florida.....	1	1	-----	-----
Georgia.....	2	2	X	X
Hawaii.....	1	1	X	-----
Idaho.....	1	1	X	-----
Illinois.....	1	1	X	X
Indiana.....	1	1	-----	-----
Iowa.....	1	2	-----	-----
Kansas.....	1	1	-----	-----
Kentucky.....	1	1	-----	-----
Louisiana.....	1	1	X	-----
Maine.....	1	1	-----	-----
Maryland.....	0	0	-----	-----
Massachusetts.....	1	2	X	-----
Michigan.....	1	1	X	-----
Minnesota.....	2	2	-----	-----
Mississippi.....	1	1	X	X
Missouri.....	1	2	X	-----
Montana.....	2	(1)	-----	-----
Nebraska.....	2	2	X	X
Nevada.....	1	1	-----	-----
New Hampshire.....	1	2	X	X
New Jersey.....	1	1	-----	-----
New Mexico.....	1	1	X	-----
New York.....	2 1	2 2-4	-----	-----
North Carolina.....	1	2	-----	-----
North Dakota.....	1	1	X	-----
Ohio.....	2	2	-----	-----
Oklahoma.....	1	1	X	-----
Oregon.....	1	1	X	X
Pennsylvania.....	1	1	-----	-----
Rhode Island.....	1	2	X	3 X
South Carolina.....	1	1	-----	-----
South Dakota.....	1	1	-----	-----
Tennessee.....	1	2	X	-----
Texas.....	4 1	1	-----	-----
Utah.....	1	1	-----	(5)
Vermont.....	1	1	X	X
Virginia.....	1	1	X	-----
Washington.....	1	1	-----	-----
West Virginia.....	1	(6)	-----	-----
Wisconsin.....	2	(6)	(7)	(7)
Wyoming.....	2	2	-----	-----

<sup>1</sup> No payment of partial benefits as such.<sup>2</sup> Waiting period of 4 effective days may be accumulated in 1 to 4 weeks.<sup>3</sup> May be served in last 4 weeks of old benefit year.<sup>4</sup> A new announcement of intention to file a claim followed by an additional waiting period is required if a previous announcement is not followed within 13 days by an initial claim or if the claim series beginning with an initial claim is interrupted by a period of more than 35 days during which the worker does not report to the office to show completion of 14 days of unemployment.<sup>5</sup> No waiting period required for claims filed in last 4 weeks of a benefit year.<sup>6</sup> No waiting period required for benefits for partial unemployment; waiting-period requirement is in terms of weeks of total unemployment.<sup>7</sup> Only one waiting period of 2 weeks is required within the last 5 weeks of one calendar year and the first weeks of the next calendar year.

TABLE 5.—Weekly benefits for total unemployment under State laws, Dec. 31, 1948

State	Method of computing <sup>1</sup>	Rounding to—	Minimum weekly benefit <sup>2</sup>	Maximum weekly benefit <sup>2</sup>	Wage credits required <sup>3</sup>			
					For minimum		For maximum	
					High quarter	Base period	High quarter	Base period
High-quarter formula								
Alabama	1/26	Nearest dollar	\$4.00	\$20.00	\$75.01	\$120.00	\$507.01	\$600.00
Alaska	1/20	Higher dollar	8.00	25.00	37.50	150.00	480.01	480.01
Arizona	1/20	do.	5.00	20.00	37.50	150.00	380.01	600.00
Arkansas	1/24	Nearest dollar	5.00	20.00	37.50	150.00	468.01	600.00
California	1/20-1/22	Dollar schedule	10.00	25.00	75.00	300.00	580.00	750.00
Colorado	1/25	Higher 50 cents	6.00	17.50	45.00	180.00	425.01	525.00
Connecticut	1/26+d.a.	Nearest dollar	8.00-12.00	24.00-36.00	60.00	240.00	611.00	611.00
Delaware	1/25	Higher 50 cents	7.00	18.00	52.50	210.00	437.51	540.00
District of Columbia	1/23+d.a.	Higher dollar	6.00-9.00	<sup>2</sup> 20.00	37.50	150.00	437.01	437.01
Florida	1/18-1/24	Dollar schedule	5.00	15.00	37.50	150.00	345.01	450.00
Georgia	1/23-1/26	do.	4.00	18.00	48.00	100.00	455.01	720.00
Hawaii	1/25	Higher dollar	5.00	25.00	37.50	150.00	600.01	750.00
Idaho	1/19-1/24	Dollar schedule	10.00	20.00	150.00	250.00	475.01	745.00
Illinois	1/20	Higher 50 cents	10.00	20.00	56.25	225.00	390.01	390.01
Indiana	1/25	Higher dollar	5.00	20.00	75.00	250.00	475.01	475.01
Iowa	1/23	No provision	5.00	20.00	25.00	100.00	460.00	460.00
Kansas	1/25	Higher dollar	5.00	18.00	25.00	100.00	425.01	425.01
Louisiana	1/20	do.	5.00	25.00	37.50	150.00	480.01	750.00
Maryland	1/26	Nearest dollar	6.00	25.00	156.01	240.00	637.01	1,000.00
Massachusetts	1/20+d.a.	Higher dollar	6.00-10.00	<sup>2</sup> 25.00	37.50	150.00	480.00	480.00
Mississippi	1/26	do.	3.00	20.00	22.50	90.00	494.01	600.00
Missouri	1/25	Higher 50 cents	4.50	20.00	2.50	20.00	487.51	800.00
Montana	1/22	Higher dollar	7.00	18.00	52.50	210.00	378.00	540.00
Nebraska	1/25	do.	5.00	18.00	50.00	200.00	425.01	425.01
Nevada	1/20+d.a.	do.	8.00-14.00	20.00-26.00	60.00	240.00	380.01	600.00
New Jersey	1/22	do.	9.00	22.00	67.50	270.00	462.01	462.01
New Mexico	1/26	do.	5.00	20.00	78.00	150.00	494.01	600.00
New York	1/23	Nearest dollar	10.00	26.00	100.00	300.00	586.00	780.00
North Dakota	1/23	Higher dollar	5.00	20.00	35.00	140.00	347.01	560.00
Ohio	1/20-1/28	Dollar schedule	5.00	21.00	40.00	160.00	581.00	<sup>6</sup> 581.00
Oklahoma	1/20	Higher dollar	6.00	18.00	30.00	120.00	340.01	360.00
Pennsylvania	1/25	Nearest dollar	8.00	20.00	60.00	240.00	488.00	600.00
Rhode Island	1/20	do.	10.00	25.00	25.00	100.00	490.00	490.00
South Carolina	1/20-1/24	Higher dollar	5.00	20.00	100.00	150.00	400.00	600.00
South Dakota	1/20-1/23	Dollar schedule	6.00	20.00	60.00	125.00	450.00	450.00
Tennessee	1/20-1/26	do.	5.00	18.00	50.00	125.00	442.01	540.00
Texas	1/26 <sup>6</sup>	Higher dollar	<sup>5</sup> 5.00	<sup>8</sup> 18.00	22.50	90.00	455.01	455.01
Utah <sup>6</sup>	1/20+cost of living allowances.	do.	5.00-7.00	17.00-25.00	73.50	294.00	380.00	600.00
Vermont	1/18-1/26	Dollar schedule	6.00	20.00	50.00	180.00	500.00	600.00
Virginia	1/25	Higher dollar	5.00	20.00	25.00	100.00	475.01	500.00
Wyoming	1/20	do.	7.00	20.00	70.00	175.00	380.01	500.00
Annual-wage formula								
Kentucky	Percent 2.3-1	Dollar schedule	7.00	20.00	-----	300.00	-----	1,755.00
Maine	2.3-1.1	do.	6.75	22.50	-----	300.00	-----	2,000.00
Minnesota	3.6-1.1	Dollar schedule	7.00	20.00	-----	200.00	-----	1,750.00
New Hampshire	3.0-0.9	do.	6.00	22.00	-----	200.00	-----	2,000.00
North Carolina	3.1-0.9	Dollar to 50-cent schedule.	4.00	20.00	-----	130.00	-----	2,080.00
Oregon	3.3-1.3	Dollar schedule	10.00	20.00	-----	300.00	-----	1,600.00
Washington	3.3-1.1	do.	10.00	25.00	-----	300.00	-----	2,200.00
West Virginia	2.7-1.1	do.	8.00	20.00	-----	300.00	-----	1,800.00

See footnotes at end of table.



TABLE 5.—*Weekly benefits for total unemployment under State laws, Dec. 31, 1948—Continued*

State	Method of computing <sup>1</sup>	Rounding to—	Minimum weekly benefit <sup>2</sup>	Maximum weekly benefit <sup>2</sup>	Wage credits required <sup>3</sup>			
					For minimum		For maximum	
					High quarter	Base period	High quarter	Base period
	Average weekly wage							
Michigan-----	67-64+ d. a.	Dollar schedule.	\$6.00-7.00	\$20.00-28.00	-----	<sup>7</sup> \$112.14		<sup>7</sup> \$420.14
Wisconsin-----	70-51----	do-----	8.00	24.00	-----	<sup>7</sup> 140.00	-----	<sup>7</sup> 644.14

<sup>1</sup> The fraction of high-quarter wages applies between the minimum and maximum amounts. When State uses a weighted table, approximate fractions are figured at midpoint of brackets between minimum and maximum. When dependents' allowances are provided the fraction applies to the basic benefit amount. With annual wage formula, fraction is minimum and maximum percentage used in any wage bracket. Dependents' allowances abbreviated as d. a.

<sup>2</sup> When 2 amounts are given, higher includes maximum dependents' allowance except in Utah. See footnote 6. In the District of Columbia same maximum with or without dependents. Maximum augmented payment to individual with dependents not shown for Massachusetts since highest taxable average weekly wage may be \$231 and any figure presented would be based on an assumed maximum number of dependents.

<sup>3</sup> See table 3, p. 223, for additional requirements concerning distribution of earnings. See also table 7, p. 229, for wage credits required for maximum duration as well as maximum weekly benefit.

<sup>4</sup> If benefit is less than \$3, benefits are paid at the rate of \$3 a week.

<sup>5</sup> Actually, benefits are paid for a 2-week period, based on  $\frac{1}{2}$  of wages in high quarter, minimum \$10, maximum \$36.

<sup>6</sup> The normal rates are minimum \$5, maximum \$20. When the cost-of-living index of the Bureau of Labor Statistics stands at or below 98.5, rates are 80 percent of the normal rates, computed to the next higher \$1. When the index stands at or above 125, rates are 120 percent of the normal rate, computed to the next higher \$1. Minimum earnings for maximum and minimum benefits shown are those now applicable for the State average annual wage effective for the benefit year beginning July 4, 1948.

<sup>7</sup> Figured as 14 times minimum and maximum average weekly wage brackets.

TABLE 6.—Selected data relating to the weekly benefit amount, by State, 1938-41, 1944-47

(Data corrected to Dec. 10, 1948)

State	Average weekly payment for total unemployment in—							Percent of weeks of total unemployment compensated during 1947 at 1—								
	1938 1	1939 1	1940	1941	1944	1945	1946	1947	Less than \$5	\$5-\$9.99	\$10-\$14.99	\$15-\$17.99	\$18-\$19.99	\$20 or more	Minimum weekly benefit	Maximum weekly benefit
United States	\$10.94	\$10.66	\$10.56	\$11.06	\$15.90	\$13.77	\$18.50	\$17.83	0.1	4.4	16.6	13.7	10.3	54.8	3.2	56.7
Alabama	7.63	7.15	6.52	7.16	11.64	16.72	16.57	14.65	1.4	14.2	28.0	17.1	9.5	29.9	1.4	29.9
Alaska	15.06	14.67	14.24	14.21	14.21	15.57	16.03	21.79	---	2.5	6.7	12.2	3.0	75.5	---	70.7
Arizona	11.79	11.19	10.96	11.02	14.43	14.70	14.39	16.08	---	2.7	12.7	46.2	4.1	34.3	---	75.6
Arkansas	6.66	6.36	6.36	6.84	13.24	13.24	12.61	13.75	2.4	17.8	30.0	36.8	3.4	9.6	2.6	39.8
California	9.72	10.99	13.98	18.22	19.40	19.03	18.75	18.75	---	7.7	22.9	69.4	6.8	78.0	2.0	78.0
Colorado	10.62	10.04	9.98	10.21	13.36	13.58	13.89	14.53	---	7.7	22.9	69.4	6.8	78.0	2.0	78.0
Connecticut	8.41	8.96	9.08	10.35	18.87	20.84	21.08	19.56	---	11.0	23.6	13.7	10.3	56.4	2.2	60.5
Delaware	8.58	8.68	9.71	12.20	17.78	17.78	17.14	16.46	---	6.1	23.3	20.3	51.7	40.8	3.9	51.7
District of Columbia	8.81	8.68	9.72	12.20	17.78	17.78	17.14	16.46	---	6.1	23.3	20.3	51.7	40.8	3.9	51.7
Florida	8.68	8.68	9.72	12.20	17.78	17.78	17.14	16.46	---	6.1	23.3	20.3	51.7	40.8	3.9	51.7
Georgia	6.38	6.56	7.47	10.54	15.94	15.20	13.32	13.53	---	6.6	28.9	64.5	22.3	60.2	1.5	64.5
Hawaii	8.96	8.24	7.36	10.57	21.25	21.86	19.87	19.87	1.6	17.0	34.1	25.0	7.1	13.0	1.5	39.8
Idaho	10.73	11.21	11.24	11.19	12.40	13.70	15.45	15.99	---	2.5	15.1	12.6	30.1	67.5	8.8	67.5
Illinois	12.90	12.92	12.92	13.17	17.55	18.95	18.67	18.23	---	4.2	23.3	15.4	10.1	51.0	1.1	51.0
Indiana	12.42	11.06	10.97	11.51	16.10	16.38	18.66	17.00	---	14.8	19.3	14.7	40.0	7.2	1.9	45.6
Iowa	9.30	9.08	9.50	9.37	11.59	16.25	15.80	14.55	---	8.2	10.0	53.0	18.9	---	1.3	65.7
Kansas	8.45	7.88	7.88	7.56	13.42	15.37	15.09	14.56	---	39.6	33.6	26.8	---	---	10.8	19.9
Kentucky	8.41	8.33	8.02	7.56	10.50	12.43	12.09	10.98	2.8	17.1	27.0	15.9	37.2	16.9	1.1	37.2
Louisiana	8.64	7.64	6.65	7.06	10.49	15.83	15.76	13.93	---	27.5	26.6	15.3	13.7	---	5.7	16.9
Maine	10.21	9.31	8.96	11.04	16.21	19.24	18.97	18.07	---	5.5	25.6	15.3	13.0	---	6.6	39.8
Maryland	10.62	9.93	10.09	10.44	16.21	19.19	20.86	21.85	---	2.3	7.8	9.3	7.7	72.8	4.4	52.9
Massachusetts	13.49	13.30	12.56	12.76	19.03	20.70	20.37	19.77	---	8.8	8.0	6.5	15.1	79.4	1.5	79.4
Michigan	10.41	11.14	10.24	10.61	14.28	17.18	16.70	14.98	---	7.5	39.0	14.4	15.1	24.0	1.1	24.0
Minnesota	5.89	5.64	6.03	7.58	11.16	12.90	12.85	12.15	---	18.8	40.5	39.1	8.9	49.3	---	39.1
Mississippi	8.68	9.09	9.60	15.27	16.76	16.76	16.40	16.40	1.6	6.7	21.0	13.5	28.2	49.3	3.9	53.7
Missouri	11.20	10.89	11.00	12.34	13.05	13.35	14.24	14.92	---	13.5	23.2	35.1	28.2	49.3	6.6	48.9
Montana	8.67	9.28	9.21	12.63	16.31	16.31	15.17	13.92	---	9.3	25.0	16.8	48.9	---	6.6	48.9
Nebraska	12.94	13.22	13.30	13.30	14.75	17.17	18.09	18.85	---	1.2	4.5	5.3	68.9	20.1	4.9	87.6
Nevada	8.82	8.55	8.55	11.14	13.38	13.61	13.61	13.62	---	17.5	10.3	9.5	10.9	28.4	3.5	61.3
New Hampshire	9.28	8.80	8.46	11.26	16.41	20.27	20.39	19.81	---	12.2	25.8	50.7	7.4	69.3	1.6	55.2
New Jersey	9.22	10.14	9.16	8.89	11.66	12.67	13.41	13.85	---	33.4	48.2	12.0	8.9	63.0	4.4	60.6
New Mexico	12.85	11.58	11.58	16.17	19.48	19.36	18.77	18.77	---	6.3	16.2	6.9	2.0	6.0	---	6.0
New York	8.81	4.68	5.80	7.91	12.66	11.84	12.66	11.84	2.4	---	16.2	12.2	7.7	57.6	---	57.6
North Carolina	9.45	9.45	9.54	9.69	12.10	14.56	16.87	17.38	---	6.3	16.2	12.2	7.7	57.6	---	57.6
North Dakota	9.45	9.45	9.54	9.69	12.10	14.56	16.87	17.38	---	6.3	16.2	12.2	7.7	57.6	---	57.6

See footnotes at end of table.

TABLE 6.—Selected data relating to the weekly benefit amount, by State—Continued

[Data corrected to Dec. 10, 1948]

State	Average weekly payment for total unemployment in—							Percent of weeks of total unemployment compensated during 1947 at <sup>2</sup> —							
	1938 <sup>1</sup>	1939 <sup>1</sup>	1940	1941	1944	1945	1946	1947	Less than \$5	\$5-\$9.99	\$10-\$14.99	\$15-\$19.99	\$20 or more	Minimum weekly benefit	Maximum benefit
Ohio.....	\$10.57	\$10.25	\$10.28	\$10.14	\$14.44	\$18.84	\$18.72	\$17.27		2.2	19.7	22.1	41.1	1	34.3
Oklahoma.....	11.90	11.15	9.84	10.07	14.69	17.43	16.69	16.09		5.7	13.0	10.8	70.5	1.7	70.5
Oregon.....	11.18	11.90	12.43	12.32	14.32	16.82	16.88	15.94			31.1	22.1	30.6	2.7	44.4
Pennsylvania.....	9.63	9.99	10.90	11.02	15.18	17.87	18.15	17.13			18.6	13.2	8.5	53.3	4.0
Rhode Island.....	6.71	6.28	6.71	7.30	16.44	17.35	17.36	18.90		6.4	8.9	6.3	46.8	1.0	65.7
South Carolina.....	7.27	7.21	7.24	7.45	11.16	11.89	14.10	13.92	2.3	14.2	38.3	18.9	8.1	2.3	58.2
South Dakota.....	9.23	8.43	8.07	8.11	11.46	13.15	13.38	13.59		11.2	26.7	55.4	1.0	2.2	40.3
Tennessee.....	11.37	10.32	11.11	12.26	18.88	22.76	23.35	13.74		17.3	24.9	34.0	42.9	4.4	43.9
Texas.....	9.39	9.23	9.08	9.52	12.29	16.55	16.85	22.82		3.0	4.1	6.5	2.7	3.0	72.5
Utah.....	8.08	7.88	7.68	8.03	11.13	12.81	12.97	16.84		1.2	23.0	20.1	12.4	2	41.4
Virginia.....	11.82	12.62	12.62	13.91	12.97	21.07	20.94	12.35	( <sup>4</sup> )	20.1	37.4	42.4		2.6	42.4
Washington.....	10.83	8.44	8.00	9.60	14.42	16.00	16.03	15.27		12.7	27.2	10.9	8.1	14.4	34.7
West Virginia.....	10.57	10.05	11.02	11.19	14.25	17.81	17.07	16.44		2.4	28.9	19.4	14.1	6.5	21.9
Wisconsin.....	13.84	13.16	13.16	13.21	15.13	18.02	18.89	18.52		2.1	30.0	21.7	9.8	8	56.1
Wyoming.....											8.0	8.8	6.8	.7	74.4

<sup>1</sup> Average computed from date benefits were first payable.<sup>2</sup> Based on payments for full weekly benefit rate only; excludes residual payments and payments reduced because of receipt of benefits under other programs.<sup>3</sup> Data not available.<sup>4</sup> Less than 0.05 percent.

TABLE 7.—Duration of benefits in a benefit year under State laws, Dec. 31, 1948

State	Proportion of wages in 4-quarter base period	Minimum potential benefits <sup>1</sup>		Maximum potential benefits			
		Amount	Weeks	Amount <sup>2</sup>	Weeks	Wage credits required	
						High quarter	Base period
Uniform potential duration for all eligible claimants							
Arizona.....		\$60.00	12	\$240	12	\$380.01	\$600.00
Georgia.....		64.00	16	288	16	455.01	720.00
Hawaii.....		100.00	20	500	20	600.01	750.00
Kentucky.....		154.00	22	440	22	<sup>3</sup> 438.75	1,755.00
Maine.....		135.00	20	450	20	<sup>3</sup> 500.00	2,000.00
Mississippi.....		48.00	16	320	16	494.01	600.00
Montana.....		112.00	16	288	16	377.78	540.00
New Hampshire.....		138.00	23	506	23	<sup>3</sup> 500.00	2,000.00
New York.....		260.00	<sup>4</sup> 26	676	<sup>3</sup> 26	586.00	780.00
North Carolina.....		64.00	16	320	16	<sup>3</sup> 520.00	2,080.00
North Dakota.....		100.00	20	400	20	437.01	560.00
South Carolina.....		90.00	18	360	18	400.00	600.00
Tennessee.....		100.00	20	360	20	442.01	540.00
Vermont.....		120.00	20	400	20	500.00	600.00
West Virginia.....		168.00	21	420	21	<sup>3</sup> 450.00	1,800.00
Maximum potential duration varying with wage credits							
Alabama.....	$\frac{1}{4}$	\$40.00	10	\$400	20	\$507.01	\$1,200.00
Alaska.....	$\frac{1}{4}$	64.00	<sup>5</sup> 8	625	25	480.01	1,875.00
Arkansas.....	$\frac{1}{4}$ <sup>6</sup>	20.00	4	320	<sup>6</sup> 16	468.01	<sup>6</sup> 960.00
California.....	$\frac{1}{2}$	150.00	<sup>1</sup> 12+	650	26	580.00	1,300.00
Colorado.....	$\frac{1}{4}$	60.00	10	350	20	425.01	1,050.00
Connecticut.....	$\frac{1}{4}$	70.00	<sup>1</sup> 6+	528-792	22	611.00	2,080.00
Delaware.....	$\frac{1}{4}$	77.00	<sup>5</sup> 11	396	22	437.51	1,584.00
Dist. of Col.....	$\frac{1}{2}$	75.00	<sup>1</sup> 10+	400	20	437.01	800.00
Florida.....	$\frac{1}{4}$	38.00	7+	240	16	345.01	960.00
Idaho.....	40-22 percent	100.00	10	400	20	475.01	1,820.00
Illinois.....	56-33 percent	125.00	<sup>1</sup> 8 10	520	26	390.01	1,575.00
Indiana.....	$\frac{1}{4}$	62.00	<sup>1</sup> 6+	400	20	475.01	1,600.00
Iowa.....	$\frac{1}{4}$	33.33	6+	400	20	460.00	1,200.00
Kansas.....	$\frac{1}{4}$	34.00	6+	360	20	425.01	1,080.00
Louisiana.....	$\frac{1}{4}$	50.00	10	500	20	480.01	1,500.00
Maryland.....	$\frac{1}{4}$	60.00	10	650	26	<sup>7</sup> 650.00	2,600.00
Massachusetts.....	$\frac{3}{10}$	45.00	<sup>1</sup> 5+	575	23	480.00	1,916.66
Michigan.....	$\frac{2}{3}$ of weeks of employment	56.00	9+	400-560	20	<sup>8</sup> 390.13	<sup>8</sup> 900.30
Minnesota.....	47-22 percent	84.00	<sup>8</sup> 12	400	20	<sup>3</sup> 437.50	1,750.00
Missouri.....	$\frac{1}{4}$ in 8 quarters	5.00	<sup>9</sup> 1+	400	20	487.51	1,600.00
Nebraska.....	$\frac{1}{4}$	67.00	<sup>1</sup> 7+	324	18	425.01	972.00
Nevada.....	$\frac{1}{4}$	80.00	10	400-520	20	380.01	1,200.00
New Jersey.....	$\frac{1}{4}$	90.00	<sup>8</sup> 10	572	26	462.01	1,716.00
New Mexico.....	$\frac{2}{5}$	60.00	12	400	20	494.01	1,000.00
Ohio.....	Schedule of weeks of employment. <sup>10</sup>	90.00	18	462	22	581.00	<sup>10</sup> 1,117.25
Oklahoma.....	$\frac{1}{4}$	40.00	6+	360	20	340.01	1,080.00
Oregon.....	$\frac{1}{4}$	75.00	7+	400	20	<sup>3</sup> 400.00	1,600.00
Pennsylvania.....	$\frac{3}{10}$	72.00	9	480	24	488.00	1,646.00
Rhode Island.....	52-27 percent	52.00	5+	650	26	<sup>7</sup> 600.00	2,400.00
South Dakota.....	48-22 percent	60.00	<sup>1</sup> 6+	400	20	450.00	1,800.00
Texas.....	$\frac{1}{5}$	18.00	<sup>3</sup> 3+	324	<sup>3</sup> 18	455.01	1,620.00
Utah.....	Schedule in percent of average State wages. <sup>11</sup>	125.00	<sup>11</sup> 12+	500	<sup>11</sup> 20	<sup>7</sup> 525.00	<sup>11</sup> 2,100.00
Virginia.....	$\frac{1}{4}$	30.00	6	320	16	475.01	1,240.01
Washington.....	40-29 percent	120.00	<sup>8</sup> 12	650	26	<sup>3</sup> 550.00	2,200.00
Wisconsin.....	$\frac{3}{5}$ of weeks of employment	68.00	8+	576	24	( <sup>9</sup> )	<sup>5</sup> 1,840.40
Wyoming.....	$\frac{1}{4}$	40.00	5+	400	20	390.01	1,560.01

<sup>1</sup> Minimum potential benefits for claimants with minimum qualifying wages. (See table 3, p. 223 for these qualifying wages.) In States noted, weeks for claimants with minimum weekly benefit will be greater than figure here for claimants whose weekly benefit is higher than the minimum because qualifying wages are concentrated largely or wholly in high quarter. (See table 5, p. 225, for minimum weekly benefit and divide into minimum potential benefits.) In Connecticut, District of Columbia, Michigan, and Nevada, dependents' allowances being outside the duration formula, add to potential benefits for claimants with minimum qualifying wages.

<sup>2</sup> When 2 amounts are given, higher includes maximum dependents' allowances; same maximum with or without dependents' allowances in District of Columbia and Massachusetts.

<sup>3</sup> Annual wage formula: amount shown for high quarter is  $\frac{1}{4}$  of required base-period wages.

<sup>4</sup> Converted from days of unemployment in New York and 2-week periods in Texas.

<sup>5</sup> Statutory minimum.

<sup>6</sup> Or 4 times weekly benefit times quarters with wages at least  $\frac{1}{4}$  of high quarters, if less; maximum duration given assumes such wages in 4 quarters.

Footnotes continued on p. 230.



<sup>7</sup> Amount shown is  $\frac{1}{4}$  of base-period wages. To obtain maximum potential annual benefits, claimant must have more than 4 times high-quarter wages necessary for maximum weekly benefit.

<sup>8</sup> Figures given are based on highest average weekly wage in schedule (\$30.01). High-quarter figure assumes 13 weeks' employment; base-period figure the minimum 30 weeks required.

<sup>9</sup> A claimant eligible for the minimum benefit amount may draw all benefits due in 1 and a fraction weeks because benefits of 50 cents to \$3 a week are paid at rate of \$3.

<sup>10</sup> 18 weeks' duration for 20 weeks of employment; 19 weeks, for 21-24 weeks of employment; 22 weeks, for more than 24 weeks of employment. Base-period wages are 25 weeks' wages if high quarter represents 13 weeks of employment.

<sup>11</sup> Maximum potential benefits of \$125 for 14 percent of average State wages to \$500 for 100 percent are not increased by cost-of-living allowance which raises weekly benefits; hence, weeks of duration are reduced. Qualifying wages shown are for benefit year beginning July 4, 1948, based on 1947 average wages.

TABLE 8.—Selected data relating to the duration of unemployment benefits, by State

[Data corrected to Dec. 10, 1948]

State	Exhaustions of benefits as per- cent of first payments in					Average actual duration (weeks) for claimants ex- hausting benefit rights, in benefit years ended in—					Average actual duration (weeks) for claimants not exhaust- ing benefit rights, in benefit years ended in—	
	1940	1942	1944	1946	1947	1941	1942	1944	1946	1947	1946	1947
United States <sup>2</sup> .....	50.6	34.9	20.2	38.3	30.7	12.1	12.6	13.8	18.5	17.8	9.0	8.2
Alabama.....	48.4	30.0	25.5	63.4	55.3	17.3	17.0	17.2	18.2	17.0	9.4	8.4
Alaska.....	45.9	12.7	25.7	29.1	31.2	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )	15.0	14.6	7.7	7.9
Arizona.....	72.2	45.2	30.2	51.5	48.4	10.1	9.8	8.8	12.6	11.8	6.7	7.1
Arkansas.....	55.3	42.0	38.9	62.3	52.0	( <sup>3</sup> )	9.5	8.3	10.5	9.9	6.3	6.4
California.....	50.8	32.9	27.7	46.0	44.1	16.8	16.7	15.3	19.2	18.0	11.2	10.4
Colorado.....	53.2	30.9	19.4	29.4	25.4	14.7	( <sup>3</sup> )	12.8	13.3	14.4	5.3	6.7
Connecticut.....	52.6	19.2	10.1	36.7	21.9	8.5	10.4	11.0	17.3	16.9	7.7	7.6
Delaware.....	64.8	37.8	23.3	49.6	33.4	8.3	9.0	11.7	18.1	16.3	8.6	7.8
District of Columbia.....	40.0	34.9	23.9	31.5	46.2	( <sup>3</sup> )	( <sup>3</sup> )	18.6	18.5	18.7	8.7	8.8
Florida.....	64.5	43.9	18.9	43.5	49.8	12.7	11.4	11.0	14.8	13.9	6.5	7.5
Georgia.....	75.6	43.2	35.5	69.3	46.1	10.6	14.0	15.5	15.8	15.5	8.7	8.0
Hawaii.....	51.5	21.1	9.1	12.1	16.2	14.4	15.7	20.0	20.0	20.0	5.2	5.9
Idaho.....	68.8	34.8	41.2	31.2	26.4	13.9	12.2	( <sup>3</sup> )	14.9	14.4	9.3	7.5
Illinois.....	38.0	23.4	13.2	23.7	20.6	11.8	12.1	14.2	20.4	18.8	8.6	8.5
Indiana.....	( <sup>3</sup> )	( <sup>3</sup> )	24.7	40.5	29.9	11.0	11.8	( <sup>3</sup> )	16.6	16.0	6.9	5.1
Iowa.....	59.9	43.4	40.8	53.9	33.9	8.5	8.5	7.8	15.6	13.8	7.6	6.6
Kansas.....	67.7	32.7	27.0	55.3	36.1	7.7	10.4	13.9	15.5	16.8	9.1	7.9
Kentucky.....	55.2	35.0	19.9	49.9	42.5	15.5	16.0	16.7	19.8	19.6	8.7	8.2
Louisiana.....	73.1	42.2	38.7	73.8	62.4	10.9	10.3	10.6	17.0	15.0	11.0	7.9
Maine.....	24.7	21.4	23.2	22.6	19.0	15.9	14.0	14.2	19.9	19.9	8.1	8.2
Maryland.....	44.9	29.9	16.3	30.3	18.2	13.4	10.9	12.2	16.8	19.5	8.6	7.8
Massachusetts.....	46.5	28.2	16.1	43.9	34.0	( <sup>3</sup> )	15.4	( <sup>3</sup> )	17.6	15.9	8.0	7.7
Michigan.....	26.5	38.7	20.2	60.0	21.4	14.0	15.2	14.4	17.9	14.6	8.5	4.8
Minnesota.....	59.9	40.9	25.0	46.2	30.9	14.3	13.8	9.7	18.7	18.4	8.7	8.5
Mississippi.....	57.7	35.5	28.8	48.2	43.5	11.3	14.0	14.0	14.0	14.0	6.4	7.1
Missouri.....	55.3	44.8	22.0	49.6	39.0	9.0	11.0	11.9	14.8	17.0	6.7	7.4
Montana.....	55.3	29.0	28.7	38.4	34.9	16.0	16.0	16.0	16.0	16.0	7.0	7.9
Nebreska.....	56.4	33.3	24.9	47.6	32.4	14.5	13.9	13.0	16.7	15.5	7.7	7.2
Nevada.....	62.1	30.1	29.8	36.7	31.3	13.2	13.1	17.1	18.1	17.4	9.8	9.4
New Hampshire.....	36.0	18.6	9.6	16.5	11.8	10.3	14.9	15.0	20.0	19.9	8.0	6.5
New Jersey.....	60.2	37.5	21.5	42.9	35.7	9.1	10.5	10.8	20.0	19.4	10.8	10.0
New Mexico.....	56.9	28.0	23.0	37.5	23.3	14.8	14.7	13.4	15.0	14.6	7.5	7.6
New York.....	49.8	39.2	11.0	19.1	14.5	13.0	13.0	20.0	26.0	26.0	10.3	10.0
North Carolina.....	30.2	32.4	22.6	34.0	32.2	16.0	16.0	15.6	15.7	15.7	6.7	7.2
North Dakota.....	59.9	28.0	14.8	14.9	13.0	14.8	13.5	16.0	19.0	20.0	10.0	9.3
Ohio.....	48.1	31.4	11.9	42.9	25.7	15.4	15.4	18.5	20.4	20.9	8.7	7.8
Oklahoma.....	71.3	38.0	22.1	65.6	55.1	7.7	8.8	13.5	17.8	15.8	9.4	8.4
Oregon.....	50.1	28.2	18.4	29.1	22.7	7.5	6.5	7.6	17.5	13.2	8.7	7.0
Pennsylvania.....	63.8	37.4	28.9	32.7	28.9	9.0	9.2	12.1	18.3	17.6	7.5	6.6
Rhode Island.....	65.9	46.9	30.1	42.5	38.8	9.2	9.1	11.1	13.5	14.8	7.3	7.6
South Carolina.....	41.4	32.9	28.0	45.5	41.8	15.6	15.5	15.7	16.0	16.0	6.7	6.8
South Dakota.....	48.4	42.0	31.5	26.0	21.1	14.0	12.2	12.0	13.0	12.3	7.6	5.4
Tennessee.....	50.3	37.8	35.0	59.8	46.5	16.0	16.0	16.0	16.0	16.0	7.8	7.7
Texas.....	63.3	45.6	51.2	70.4	65.6	9.8	9.4	( <sup>3</sup> )	14.3	12.4	8.2	7.8
Utah.....	55.6	22.8	7.0	27.0	26.6	12.1	20.0	20.0	18.5	18.5	9.2	8.7
Vermont.....	50.5	36.3	28.4	30.5	17.9	13.0	13.2	18.0	20.0	20.0	8.5	7.0
Virginia.....	39.1	40.5	28.2	42.1	43.2	12.7	13.4	12.3	12.1	12.6	8.1	6.7
Washington.....	50.2	22.6	9.7	21.6	41.1	12.6	11.6	11.5	20.9	22.0	10.8	9.6
West Virginia.....	45.5	19.3	17.3	36.7	25.7	14.0	16.0	( <sup>3</sup> )	20.6	20.2	6.8	7.0
Wisconsin.....	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )	41.6	29.4	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )	( <sup>3</sup> )
Wyoming.....	58.7	( <sup>3</sup> )	( <sup>3</sup> )	27.7	40.8	10.7	10.3	6.7	12.6	12.1	7.4	6.9

<sup>1</sup> Ratios computed by dividing exhaustions for the calendar year by first payments for 12-month period ending Sept. 30 of same year.

<sup>2</sup> For each column the United States total is based on data from the States for which figures are shown.

See footnote 3.

<sup>3</sup> Comparable data not available.

TABLE 9.—Summary of disqualification provisions for three major causes, State laws, Dec. 31, 1948<sup>1</sup>

State	Voluntary leaving		Discharge for misconduct		Refusal of suitable work	
	Number of weeks disqualified	Benefits reduced or canceled	Number of weeks disqualified	Benefits reduced or canceled	Number of weeks disqualified	Benefits reduced or canceled
Alabama.....	Duration....	Partial cancellation.	W+3-6....	Mandatory.	Duration+	Mandatory.
Alaska.....	W+1-5....		W+1-5....		W+1-5....	
Arizona.....	W+4.....	Mandatory.	W+4.....	Mandatory.	W+1-5....	
Arkansas.....	W+1-5....		W+1-5....		W+1-5....	
California.....	1-5.....		1-5.....		1-5.....	
Colorado.....	W+3-15....	Mandatory.	W+3-15....	Mandatory.	W+3-15....	Mandatory.
Connecticut.....	W+4.....		W+4.....		W+4.....	
Delaware.....	Duration....		Duration....		Duration....	
Dist. of Col.....	W+3.....		W+1-4....		W+3.....	
Florida.....	W+1-12 and duration+.		W+1-12 and duration+.		W+1-5 and duration+.	Optional.
Georgia.....	W+2-8....	Mandatory.	W+3-10....	Mandatory.	W+2-8....	Mandatory.
Hawaii.....	W+2-7....		W+2-7....		W+2-7....	
Idaho.....	6 <sup>2</sup> .....		6 <sup>2</sup> .....		6 <sup>2</sup> .....	
Illinois.....	W+3-7....		W+3-7....		W+3-7....	
Indiana.....	W+5.....	Mandatory.	W+5.....	Mandatory.	W+5.....	Mandatory.
Iowa.....	Duration+.	Cancellation.	2-9.....	Mandatory.	Duration....	
Kansas.....	W+1-9....		W+1-9....		W+1-9....	
Kentucky.....	1-16....		1-16....		1-16....	
Louisiana.....	W+1-6....		W+1-6....		W+1-6....	
Maine.....	W+1-5....	Mandatory.	W+1-9....	Mandatory.	W+1-5....	Mandatory.
Maryland.....	Duration+.		W+1-9....		Duration+.	
Massachusetts.....	Duration....		Duration....		W+1-4....	Optional.
Michigan.....	Duration....	Partial cancellation.	Duration....	Partial cancellation.	Duration....	Partial cancellation.
Minnesota.....	3-7.....		3-7.....		W+3.....	
Mississippi.....	W+1-12....		W+1-12....		W+1-12....	
Missouri.....	Duration+.		Duration+.		Duration+.	
Montana.....	1-5.....		1-9.....		W+1-5....	
Nebraska.....	W+1-5....		W+1-5....		Duration+.	Cancellation.
Nevada.....	W+1-15....		W+1-15....		W+1-15....	
New Hampshire.....	Duration+.		W+3.....	Mandatory.	W+3.....	
New Jersey.....	W+3.....		W+3.....		W+3.....	
New Mexico.....	W+1-13....	Mandatory.	W+1-13....	Mandatory.	W+1-13....	Mandatory.
New York.....	6.....		7.....		Duration....	
North Carolina.....	4-12....	Mandatory.	5-12....	Mandatory.	4-12....	Mandatory.
North Dakota.....	W+1-7....		W+1-10....		W+1-7....	
Ohio.....	Duration+.		3.....	Mandatory.	Duration....	
Oklahoma.....	W+2.....		W+3.....		W+2.....	
Oregon.....	W+4.....		W+4-8....		W+4.....	
Pennsylvania.....	Duration....		Duration....		Duration....	
Rhode Island.....	W+3.....		W+1-10....		W+1-3....	Optional.
South Carolina.....	W+1-5....	Optional.	W+1-16....		W+1-5....	Optional.
South Dakota.....	1-5.....		5-10....		5-10....	
Tennessee.....	W+1-5....		W+1-9....		W+1-5....	
Texas.....	2-16....	Mandatory.	2-16....	Mandatory.	2-8....	Mandatory.
Utah.....	W+1-5....		W+1-9....		W+1-5....	
Vermont.....	W+1-9....		W+1 or more.		W+6....	
Virginia.....	5.....	Mandatory.	5-9....	Mandatory.	6-9....	Mandatory.
Washington.....	5-10....		5-10....		W+1-4....	
West Virginia.....	W+6.....	Mandatory.	W+6.....	Mandatory.	W+4 or more. <sup>3</sup>	Mandatory.
Wisconsin.....	W+4.....	Partial cancellation.	W+3.....	Partial cancellation.	Duration+.	
Wyoming.....	W+1-5....	Mandatory.	W+1-5....		W+1-5....	Mandatory.

<sup>1</sup> "W+" means the week in which the disqualifying act occurred plus the indicated number of weeks following. "Duration" means that the disqualification is for the duration of the unemployment due to or following the act and "duration+" indicates that the disqualification lasts until the individual earns a specified amount or works a given time as shown in the detailed tables. "Mandatory" indicates a mandatory reduction of benefits in every case; "optional" that the reduction is optional with the State agency.

<sup>2</sup> Law includes postponement until claimant works 30 days (i. e., duration of unemployment plus) or for 6 weeks if he is diligently seeking suitable employment. Agency reports latter provision currently effective.

<sup>3</sup> Such additional weeks as any offer of suitable work continues open. Benefits reduced are reccredited if claimant returns to suitable employment during benefit year.

TABLE 10.—Average employer contribution rate, by State, 1941-48

[Data corrected to Dec. 10, 1948]

State	Average employer contribution rate <sup>1</sup>							
	1941	1942	1943	1944	1945	1946	1947	1948
United States .....	2.58	2.17	2.09	1.92	1.72	1.43	1.41	1.2
Alabama .....	2.08	1.59	1.42	1.31	1.17	.80	1.04	1.2
Alaska .....	(2)	(2)	(2)	(2)	(2)	(2)	2.09	1.7
Arizona .....	(2)	2.51	2.33	2.12	1.94	1.69	1.69	1.4
Arkansas .....	(2)	2.47	2.16	2.06	2.00	1.71	1.51	1.6
California .....	2.48	2.45	2.28	2.17	2.02	2.00	2.04	1.7
Colorado .....	(2)	1.98	1.92	1.70	1.69	1.53	1.47	1.4
Connecticut .....	2.29	2.09	2.09	2.12	2.12	2.05	.95	.3
Delaware .....	(2)	.98	.79	.68	.66	.73	.60	.6
District of Columbia .....	(2)	(2)	1.71	.50	.51	.52	.39	.4
Florida .....	(2)	2.27	2.33	2.25	2.18	1.77	1.24	.9
Georgia .....	(2)	2.07	2.11	1.98	1.83	1.55	1.25	1.0
Hawaii .....	1.65	1.54	1.38	1.21	1.24	.82	1.01	1.1
Idaho .....	(2)	(2)	2.53	2.43	2.22	2.09	2.02	2.0
Illinois .....	(2)	(2)	1.53	1.66	1.47	.79	.85	1.0
Indiana .....	2.29	1.91	1.97	1.85	1.62	.81	.54	.5
Iowa .....	(2)	1.85	2.20	2.40	1.96	1.30	1.42	1.2
Kansas .....	2.07	2.20	2.09	2.10	2.01	1.51	1.27	1.4
Kentucky .....	2.68	2.32	2.18	2.08	1.89	1.51	1.53	1.6
Louisiana .....	(2)	(2)	(2)	(2)	2.35	1.42	1.55	1.8
Maine .....	(2)	(2)	2.50	2.28	2.09	1.93	1.74	1.6
Maryland .....	(2)	(2)	2.49	2.28	2.07	1.21	1.21	1.2
Massachusetts .....	(2)	1.52	1.28	.94	.88	.88	1.13	1.3
Michigan .....	(2)	1.69	1.57	1.17	1.66	1.28	1.65	1.9
Minnesota .....	2.05	1.95	2.29	2.33	2.22	1.64	1.09	1.0
Mississippi .....	(2)	(2)	(2)	(2)	(2)	(2)	(2)	2.1
Missouri .....	(2)	1.52	1.68	2.02	1.93	1.17	1.36	1.4
Montana .....	(2)	(2)	(2)	(2)	(2)	(2)	1.73	1.7
Nebraska .....	1.38	1.56	2.02	1.74	1.30	.99	1.40	.6
Nevada .....	(2)	(2)	(2)	(2)	2.40	1.93	1.68	1.7
New Hampshire .....	2.54	2.38	2.21	1.81	1.65	1.48	1.30	1.4
New Jersey .....	(2)	1.64	1.87	1.85	1.62	1.65	1.83	1.9
New Mexico .....	(2)	2.17	2.17	1.97	2.02	1.83	1.90	1.8
New York .....	(2)	(2)	(2)	(2)	1.99	1.81	2.17	1.3
North Carolina .....	(2)	(2)	2.65	2.44	2.07	1.63	1.52	1.7
North Dakota .....	(2)	1.95	1.86	1.64	1.54	1.40	1.54	1.6
Ohio .....	(2)	1.25	1.48	1.71	1.50	1.26	.82	.7
Oklahoma .....	(2)	1.69	1.80	1.45	1.28	1.01	1.06	1.2
Oregon .....	2.65	2.41	2.31	2.23	1.98	1.73	1.81	1.7
Pennsylvania .....	(2)	(2)	(2)	1.21	1.29	1.22	.99	.9
Rhode Island .....	(2)	(2)	(2)	(2)	(2)	(2)	2.11	1.5
South Carolina .....	(2)	1.98	1.74	1.86	1.44	1.29	1.29	1.3
South Dakota .....	1.65	1.57	1.16	1.01	1.13	.93	1.18	.9
Tennessee .....	(2)	(2)	(2)	2.60	2.29	1.85	1.61	1.4
Texas .....	1.60	1.56	1.42	1.24	.92	.89	.95	.9
Utah .....	(2)	(2)	(2)	(2)	(2)	(2)	1.91	1.1
Vermont .....	2.46	2.10	2.38	2.01	1.80	1.76	1.59	1.5
Virginia .....	1.75	1.59	1.50	1.21	1.16	1.18	1.18	.7
Washington .....	(2)	(2)	(2)	(2)	(2)	(2)	1.92	1.8
West Virginia .....	2.42	2.14	1.76	1.62	1.40	1.24	1.32	1.3
Wisconsin .....	1.49	1.55	2.44	3.08	2.04	.54	.99	.5
Wyoming .....	(2)	2.66	1.93	1.67	1.44	1.42	1.09	1.2

<sup>1</sup> Computed on calendar-year basis. Preliminary estimates for 1948; 1948 data do not include effect of voluntary contributions from employers collected during the year. Effect of war-risk contributions included in rates for 1943, 1944, 1945, and 1946. These average rates include only what is paid to the States. Employers, in addition, pay 0.3 percent to the Federal Government.

<sup>2</sup> No experience rating, contribution rate 2.7 percent.

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TABLE 11.—Cumulative receipts, benefits paid, and funds available for benefits, by State, as of Sept. 30, 1948

[In thousands, data corrected to Dec. 10, 1948]

State	Cumulative contributions and interest <sup>1</sup>	Cumulative benefits paid <sup>2</sup>	Funds available for benefits <sup>3</sup>	State	Cumulative contributions and interest <sup>1</sup>	Cumulative benefits paid <sup>2</sup>	Funds available for benefits <sup>3</sup>
United States.....	\$12,563,087	\$5,087,983	\$7,475,104	Missouri.....	\$265,519	\$88,776	\$176,742
Alabama.....	122,178	60,883	61,295	Montana.....	39,158	11,152	28,006
Alaska.....	14,754	3,518	11,236	Nebraska.....	43,423	10,287	33,137
Arizona.....	37,687	10,523	27,165	Nevada.....	18,868	5,601	13,267
Arkansas.....	56,652	19,540	37,113	New Hampshire.....	43,058	15,279	27,779
California.....	<sup>4</sup> 1,401,090	683,957	<sup>4</sup> 717,133	New Jersey.....	<sup>4</sup> 740,329	281,751	<sup>4</sup> 458,578
Colorado.....	65,765	14,413	51,351	New Mexico.....	23,034	5,003	18,031
Connecticut.....	276,446	85,480	190,965	New York.....	2,020,915	984,943	1,035,972
Delaware.....	21,948	7,066	14,883	North Carolina.....	190,104	41,616	148,488
District of Columbia.....	61,946	16,668	45,278	North Dakota.....	10,883	2,949	7,933
Florida.....	113,966	40,983	72,984	Ohio.....	734,918	185,982	548,936
Georgia.....	137,680	37,489	100,191	Oklahoma.....	82,375	36,948	45,427
Hawaii.....	26,027	2,452	23,576	Oregon.....	134,221	51,462	82,759
Idaho.....	33,189	10,044	23,145	Pennsylvania.....	1,059,916	430,083	629,834
Illinois.....	853,522	345,030	508,492	Rhode Island.....	<sup>4</sup> 118,971	69,901	<sup>4</sup> 49,070
Indiana.....	297,787	105,735	192,052	South Carolina.....	70,010	17,187	52,823
Iowa.....	111,195	28,111	83,084	South Dakota.....	10,816	2,006	8,810
Kansas.....	87,805	27,707	60,098	Tennessee.....	169,666	65,663	104,003
Kentucky.....	145,469	32,990	112,479	Texas.....	263,769	70,469	193,300
Louisiana.....	153,488	57,222	96,265	Utah.....	50,731	17,420	33,311
Maine.....	72,619	30,326	42,293	Vermont.....	22,827	6,479	16,348
Maryland.....	211,240	84,511	126,730	Virginia.....	120,818	37,592	83,226
Massachusetts.....	437,069	260,708	176,362	Washington.....	267,933	117,782	150,151
Michigan.....	665,529	387,702	277,827	West Virginia.....	135,769	49,689	86,080
Minnesota.....	181,277	61,471	119,807	Wisconsin.....	264,088	47,889	216,199
Mississippi.....	58,864	15,208	43,656	Wyoming.....	15,777	4,339	11,438

<sup>1</sup> Represents contributions, penalties, and interest from employers; interest earned by State accounts in unemployment trust fund and reported by Treasury; and contributions from employees. Also includes the excess of contributions on wages earned by railroad workers through June 30, 1939, over the amounts transferred to the railroad unemployment insurance account, and refund of \$41 million by Federal Government to 13 States, Alaska, and Hawaii, collected on pay rolls for 1936 under title IX of the Social Security Act.

<sup>2</sup> Adjusted for voided benefit checks. Includes benefits paid to railroad workers through June 30, 1939; excludes benefits paid under reconversion unemployment benefits for seamen program.

<sup>3</sup> Represents sum of balances at end of month in State clearing account and benefit-payment account, and in State unemployment trust fund account in Treasury.

<sup>4</sup> Excludes \$200,000 in California, \$50,000,000 in New Jersey, and \$28,968,681 in Rhode Island withdrawn for payment of disability benefits.



TABLE 12.—*Ratio of benefits<sup>1</sup> to taxable wages,<sup>2</sup> by State, 1938-41, 1945-47*

[Data corrected to Dec. 10, 1948]

State	Calendar year							12-month period ended Sept. 30, 1948
	1938	1939	1940	1941	1945	1946	1947	
United States.....	<sup>3</sup> 2.2	<sup>4</sup> 1.5	1.7	0.9	0.8	1.7	1.1	0.9
Alabama.....	3.9	1.8	1.8	.8	.9	2.2	1.0	.8
Alaska.....		1.9	2.3	.8	.2	.9	.7	1.2
Arizona.....	2.8	2.1	1.7	.9	.4	.7	.5	.5
Arkansas.....		1.6	2.5	1.4	.4	1.3	.9	.8
California.....	1.2	1.9	3.2	1.9	1.1	2.8	2.1	2.1
Colorado.....		2.1	2.5	1.1	.1	.4	.2	.2
Connecticut.....	2.2	.8	.7	.3	1.2	1.5	.7	.7
Delaware.....		.8	1.0	.5	.6	1.0	.5	.4
District of Columbia.....	.8	.7	.9	.8	.1	.4	.6	.6
Florida.....		1.6	2.6	1.8	.4	.8	.9	.8
Georgia.....		1.1	1.4	.7	.6	.8	.7	.5
Hawaii.....		.4	.4	.1	( <sup>5</sup> )	.1	.2	.5
Idaho.....		3.3	2.8	1.7	.1	.5	.5	.7
Illinois.....			1.7	.9	.8	1.6	.8	.8
Indiana.....		1.4	1.2	.5	.7	1.3	.3	.4
Iowa.....		1.9	1.4	.7	.4	.7	.3	.3
Kansas.....		1.4	1.2	.8	.8	2.2	.7	.5
Kentucky.....		1.8	1.7	.7	.4	1.0	.6	.5
Louisiana.....	1.5	2.1	2.2	1.9	.6	1.8	.8	.7
Maine.....	3.4	2.1	2.3	.8	.6	1.7	1.2	1.2
Maryland.....	2.7	1.3	1.4	.7	1.0	2.3	.9	.8
Massachusetts.....	2.2	1.4	2.2	1.0	.6	1.5	1.7	1.4
Michigan.....		2.5	1.5	.6	2.3	2.3	.8	.8
Minnesota.....	1.8	1.5	2.1	1.3	.3	1.0	.4	.4
Mississippi.....		1.7	2.2	1.2	.3	.7	.7	.7
Missouri.....		.8	1.0	.6	.7	1.5	1.1	.8
Montana.....			3.1	2.4	.1	.7	.5	.6
Nebraska.....		1.1	1.5	1.0	.2	.8	.4	.3
Nevada.....		2.6	3.2	1.9	.1	.7	.9	1.2
New Hampshire.....	2.7	1.4	2.1	.7	.2	.3	1.0	1.1
New Jersey.....		1.2	1.2	.8	1.4	2.8	1.8	1.4
New Mexico.....		2.6	2.4	1.3	( <sup>5</sup> )	.2	.2	.3
New York.....	2.1	1.8	2.1	1.2	.7	2.1	1.7	1.5
North Carolina.....	2.4	1.1	1.1	.6	.2	.5	.5	.5
North Dakota.....		1.8	2.0	1.5	( <sup>5</sup> )	.4	.4	.4
Ohio.....		1.2	1.2	.4	.5	1.2	.4	.4
Oklahoma.....		1.8	1.7	1.0	.7	2.1	1.1	.6
Oregon.....	2.9	1.8	1.7	.7	.4	2.6	1.0	.9
Pennsylvania.....	2.7	1.9	1.5	.6	.5	1.6	.9	.6
Rhode Island.....	4.5	2.5	3.3	1.1	1.2	2.3	1.9	2.3
South Carolina.....		1.4	1.4	.7	.1	.4	.5	.6
South Dakota.....		1.0	1.0	.8	.1	.2	.2	.2
Tennessee.....	2.3	1.5	1.9	1.1	.4	1.5	1.2	1.0
Texas.....	1.2	1.4	1.2	.6	.2	.7	.3	.2
Utah.....	3.0	1.9	1.6	1.2	.2	2.0	1.0	.9
Vermont.....	1.7	1.1	1.6	.6	.3	.7	.8	.9
Virginia.....	1.9	1.3	1.6	.5	.2	.7	.4	.4
Washington.....		1.7	2.4	.9	.7	4.4	2.1	1.4
West Virginia.....	3.9	1.2	1.0	.6	.4	1.3	.7	.5
Wisconsin.....	1.6	.6	.7	.4	.3	.6	.2	.2
Wyoming.....		2.8	2.9	1.3	( <sup>5</sup> )	.3	.3	.3

<sup>1</sup> Excludes benefits paid under reconversion unemployment benefits for seamen program.<sup>2</sup> Taxable wages as used here means wages of \$3,000 or less. For some States for years in which taxable wages were not identical with wages of \$3,000 or less, an estimate was used.<sup>3</sup> Based on 23 States paying benefits Jan 1, 1938.<sup>4</sup> Based on 49 States paying benefits Jan 1, 1939.<sup>5</sup> Less than 0.05 percent.

TABLE 13.—*Funds available for benefits at end of year as percent of taxable wages, by State,<sup>1</sup> 1939-41, 1945-47*

[Data corrected to Dec. 10, 1948]

State	1939	1940	1941	1945	1946	1947	12-month period ended Sept. 30, 1948
United States.....	5.4	6.0	6.5	11.8	10.8	10.1	9.5
Alabama.....	5.0	6.3	6.2	9.2	8.5	7.0	6.9
Alaska.....	5.9	5.1	4.9	17.8	18.5	12.0	11.2
Arizona.....	3.6	4.1	4.9	11.6	11.5	10.9	10.5
Arkansas.....	6.1	5.5	5.3	10.3	10.7	10.0	9.6
California.....	7.5	7.7	7.5	15.0	12.9	12.0	11.2
Colorado.....	6.4	6.0	6.5	11.9	11.6	11.2	11.2
Connecticut.....	4.4	5.7	6.4	13.4	13.5	12.9	11.9
Delaware.....	6.8	8.1	8.7	9.5	8.2	7.5	7.0
District of Columbia.....	7.6	8.7	9.5	13.2	11.0	10.1	9.3
Florida.....	5.9	4.9	4.8	10.1	9.8	9.6	9.0
Georgia.....	6.8	7.9	7.1	11.1	10.8	10.4	10.0
Hawaii.....	7.0	9.5	7.9	11.8	11.3	10.1	10.3
Idaho.....	4.6	3.7	4.2	13.0	12.3	11.5	11.5
Illinois.....	7.1	7.6	7.9	11.3	9.7	8.8	8.2
Indiana.....	4.5	5.4	5.7	10.5	10.3	9.1	8.4
Iowa.....	5.4	6.0	6.7	12.2	11.6	10.9	10.7
Kansas.....	8.1	8.1	7.5	11.5	12.4	11.5	11.2
Kentucky.....	9.5	11.2	11.4	15.8	15.2	13.8	13.7
Louisiana.....	5.9	5.8	5.4	12.6	11.9	10.6	10.6
Maine.....	2.5	2.7	3.7	12.3	11.7	11.1	10.7
Maryland.....	3.7	4.5	5.0	12.7	11.3	10.6	10.1
Massachusetts.....	5.1	5.6	6.1	8.5	7.0	5.9	5.4
Michigan.....	3.2	3.9	5.3	7.5	6.2	6.1	6.4
Minnesota.....	4.7	5.2	5.3	10.7	10.4	10.2	9.8
Mississippi.....	4.8	4.0	4.3	12.0	12.4	13.3	14.0
Missouri.....	7.2	7.9	8.6	12.0	11.3	10.4	10.1
Montana.....	7.6	5.4	5.7	14.7	14.2	13.5	13.2
Nebraska.....	8.1	7.8	7.6	10.3	10.3	9.9	9.6
Nevada.....	5.5	3.4	3.5	16.4	13.5	13.8	13.7
New Hampshire.....	5.3	5.4	5.7	12.2	10.9	10.3	9.7
New Jersey.....	7.9	9.6	10.1	16.9	15.6	15.5	13.7
New Mexico.....	5.8	4.8	5.4	10.2	9.4	9.4	9.5
New York.....	4.0	4.3	5.2	12.0	10.6	10.4	9.3
North Carolina.....	4.6	5.9	6.2	13.8	12.5	11.9	11.8
North Dakota.....	8.0	6.8	7.0	10.9	9.5	9.0	8.9
Ohio.....	6.5	7.6	8.0	11.4	11.1	10.4	10.0
Oklahoma.....	6.4	7.5	8.1	9.7	8.7	7.9	7.5
Oregon.....	3.4	4.1	4.9	11.5	10.9	10.3	10.2
Pennsylvania.....	3.4	4.4	5.5	11.6	10.3	9.0	8.6
Rhode Island.....	4.1	4.9	6.4	17.0	16.5	12.9	8.7
South Carolina.....	6.2	6.4	6.5	11.3	9.9	9.2	8.9
South Dakota.....	7.3	8.1	8.6	10.9	9.3	8.5	8.1
Tennessee.....	4.4	4.9	4.7	10.4	11.3	10.6	10.1
Texas.....	5.8	6.6	6.5	8.5	8.1	7.8	7.6
Utah.....	3.6	3.9	4.8	14.9	13.9	12.9	12.0
Vermont.....	5.7	5.6	6.3	12.7	12.0	11.7	11.5
Virginia.....	5.0	5.2	4.8	9.2	8.6	8.3	8.0
Washington.....	6.0	5.6	5.4	13.4	12.7	11.9	11.3
West Virginia.....	3.8	5.2	5.8	10.2	9.3	8.7	8.6
Wisconsin.....	8.0	8.8	8.4	13.7	13.6	12.6	12.0
Wyoming.....	6.5	4.9	5.7	10.5	10.1	9.5	9.0

<sup>1</sup> Taxable wages as used here mean wages of \$3,000 or less. For some States for years in which taxable wages were not identical with wages of \$3,000 or less, an estimate was used.

#### APPENDIX IV-F. STAFF FOR UNEMPLOYMENT INSURANCE

Robert M. Ball, staff director.

Everett D. Hawkins, research director.

Fedele F. Fauri, professional assistant.

Leona V. MacKinnon, executive assistant.

Helen K. Gross, secretary.

Clarence A. Kulp, professor of insurance at the Wharton School of Finance and Commerce, the University of Pennsylvania, served as a consultant to the Council.









Financing Old-Age,  
Survivors, and  
Disability Insurance



*A Report of the Advisory Council  
on Social Security Financing*

WASHINGTON, D. C.

1959

**For sale by the Superintendent of Documents, U. S. Government Printing Office  
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# Letter of Transmittal

JANUARY 1, 1959.

THE BOARD OF TRUSTEES  
OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE  
AND DISABILITY INSURANCE TRUST FUNDS  
*Washington 25, D. C.*

GENTLEMEN:

As required by section 116 of the Social Security Amendments of 1956, there is transmitted herewith the report of the Advisory Council on Social Security Financing.

The Council has carefully studied the method of financing the old-age, survivors, and disability insurance program and the estimates of the costs of the program. We are pleased to report that the method is sound and that in our judgment, based on the best available estimates, the contribution schedule now in the law makes adequate provision for meeting both short-range and long-range costs.

The law provides for annual reports by the Board of Trustees and periodic reviews by an advisory council. The sound financing of the program will continue to require annual appraisals of operating results, periodic re-examination of the techniques and assumptions used in making the long-range forecasts of income and disbursements, and periodic re-examination of the adequacy of the contribution schedule in light of the most recent cost estimates. We endorse the statutory provisions that call for these reviews.

The Council wishes to express its appreciation of the assistance of the governmental staff assigned to work with the

Council. The efficiency, knowledge, and helpfulness of the staff has greatly facilitated the Council's work.

Respectfully submitted.

CHARLES I. SCHOTTLAND,  
*Chairman, Advisory Council  
on Social Security Financing.*

## Foreword

The Advisory Council on Social Security Financing was appointed by the Secretary of Health, Education, and Welfare in accordance with section 116 of Public Law 880, 84th Congress. As provided in the statute, the Council consists of the Commissioner of Social Security as chairman and 12 persons who represent employers and employees in equal numbers and self-employed persons and the public. The members of the Council—3 representing employers, 3 representing employees, and 6 representing the self-employed and the general public—were appointed early in the fall of 1957.

The Council held its first meeting in November 1957, and concluded its work with a sixth meeting in December 1958. Between meetings the Council members continued their study through analysis of extensive materials prepared at the request of the Council by the staffs of the Social Security Administration and the Department of the Treasury.

Much of the detailed work of the Council has been done by three subcommittees—one on the actuarial cost estimates, one on investment policy, and one on the drafting of the report. The Subcommittee on Investment Policy made a careful analysis of past and present trust fund investment policies and practices, and their effect on the interest income of the trust funds. The Subcommittee on Actuarial Cost Estimates made a thorough analysis of the method of financing and of the cost estimates.



The Council considered that its main responsibility under the statute was to study and report on the method of financing old-age and survivors insurance and disability insurance, the long-range costs of the programs, the sufficiency of the income provided by the law to meet those costs, the timing and the amounts of increases scheduled to be made in contribution rates, the base to which the contribution rates are applied, the statutory provisions and the policies relating to the management and investment of the trust funds, and similar matters directly related to the financing of the program.

Early in its deliberations the Council had come tentatively to the conclusion that there was need for improvement in the financing of the program. Action by the Congress in 1958 made changes in the financing along lines that the Council endorses, thus making the task of the Council considerably easier than it would otherwise have been. This report is concerned solely with the law as amended.

Although the Council made a detailed review of the financial provisions related to old-age and survivors insurance, we found that a comparable detailed study of the provisions related to disability insurance was not possible at this time because of the short period over which these provisions have been in operation and the resulting special problems in estimating the future costs of those provisions.

All findings, conclusions, and recommendations of the Council are unanimous.

STATUTORY AUTHORITY FOR  
ADVISORY COUNCIL ON SOCIAL SECURITY FINANCING

PUBLIC LAW 880—84TH CONGRESS

SEC. 116. (a) There is hereby established an Advisory Council on Social Security Financing for the purpose of reviewing the status of the Federal Old-Age and Survivors Insurance Trust Fund and of the Federal Disability Insurance Trust Fund in relation to the long-term commitments of the old-age, survivors, and disability insurance program.

(b) The Council shall be appointed by the Secretary after February 1957 and before January 1958 without regard to the civil-service laws and shall consist of the Commissioner of Social Security, as chairman, and of twelve other persons who shall, to the extent possible, represent employers and employees in equal numbers, and self-employed persons and the public.

(c) (1) The Council is authorized to engage such technical assistance, including actuarial services, as may be required to carry out its functions, and the Secretary shall, in addition, make available to the Council such secretarial, clerical, and other assistance and such actuarial and other pertinent data prepared by the Department of Health, Education, and Welfare as it may require to carry out such functions.

(2) Members of the Council, while serving on business of the Council (inclusive of travel time), shall receive compensation at rates fixed by the Secretary, but not exceeding \$50 per day; and shall be entitled to receive actual and necessary traveling expenses and per diem in lieu of subsistence while so serving away from their places of residence.

(d) The Council shall make a report of its findings and recommendations (including recommendations for changes in the tax rates in sections 1401, 3101, and 3111 of the Internal Revenue Code of 1954) to the Secretary of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund, such report to be submitted not later than January 1,

1959, after which date such Council shall cease to exist. Such findings and recommendations shall be included in the annual report of the Board of Trustees to be submitted to the Congress not later than March 1, 1959.

(e) Not earlier than three years and not later than two years prior to January 1 of the first year for which each ensuing scheduled increase (after 1960) in the tax rates is effective under the provisions of sections 3101 and 3111 of the Internal Revenue Code of 1954, the Secretary shall appoint an Advisory Council on Social Security Financing with the same functions, and constituted in the same manner, as prescribed in the preceding subsections of this section. Each such Council shall report its findings and recommendations, as prescribed in subsection (d), not later than January 1 of the year preceding the year in which such scheduled change in the tax rates occurs, after which date such Council shall cease to exist, and such report and recommendations shall be included in the annual report of the Board of Trustees to be submitted to the Congress not later than the March 1 following such January 1.

## *Membership of the Advisory Council*

CHARLES I. SCHOTTLAND, *Commissioner of Social Security,  
Chairman of the Advisory Council*

ELLIOTT V. BELL, *Chairman of the Executive Committee,  
McGraw-Hill Publishing Co., Inc.*

J. DOUGLAS BROWN, *Dean of the Faculty, Princeton University*

MALCOLM BRYAN, *President, Federal Reserve Bank of Atlanta*

ARTHUR F. BURNS, *President, National Bureau of Economic  
Research, Inc.*

JOSEPH W. CHILDS, *Vice President, United Rubber, Cork,  
Linoleum and Plastic Workers of America*

NELSON H. CRUIKSHANK, *Director, Department of Social Se-  
curity, American Federation of Labor and Congress of  
Industrial Organizations*

CARL H. FISCHER, *Professor of Actuarial Mathematics and  
Insurance, University of Michigan*

REINHARD A. HOHAUS, *Vice President and Chief Actuary,  
Metropolitan Life Insurance Co.*

ROBERT A. HORNBY, *President, Pacific Lighting Corp.*

T. NORMAN HURD, *Professor of Agricultural Economics,  
Cornell University*

R. McALLISTER LLOYD, *Chairman, Teachers Insurance and  
Annuity Association of America*

ERIC PETERSON, *General Secretary-Treasurer, International  
Association of Machinists*





# Financing Old-Age, Survivors, and Disability Insurance

## I. *Introduction*

The old-age, survivors, and disability insurance program provides a continuing income for individuals and families who have lost income from work on account of death, retirement in old age, or permanent and total disability after age 50. Under the program, employees (with matching contributions from employers) and self-employed people, while they are working, pay a percentage of their earnings into a fund. Payments are made from the fund to the contributors and their families to replace a portion of the income lost when these risks materialize.

About 12½ million people are now drawing monthly benefits under the program, with payments for 1959 estimated at \$10 billion; more than 72 million people are insured under the program; and some 75 million workers are currently contributing toward future benefits. About 9 out of 10 of the Nation's workers are covered, and about 9 out of 10 of its mothers and children can look to the program for continuing income if the family earner dies.

The financing of this program is the largest financial trusteeship in history. It involves in varying degree the personal security of practically all Americans—not only those who have retired or are nearing retirement age but those just starting to work, those who are children today, and the gen-

erations of the future. For millions of Americans the social security benefit will spell the difference between deprivation, on the one hand, and an assured income provided on a basis consistent with self-respect and dignity, on the other. Involving practically all the people, as old-age, survivors, and disability insurance does, the program's financial operations are large. It is very important that the program be adequately financed and that orderly provision be made to assure the discharge of its obligations.

The social security system has created for millions of Americans expectations regarding their future place in economic society. These expectations could be defeated by discharging the system's obligations in dollars having a substantially lesser command of goods and services than the beneficiaries have come to count upon in their personal planning. The Council believes that the trusteeship is so large and the number of people involved so great that the defeat of beneficiaries' expectations through inflation would gravely imperil the stability of our social, political, and economic institutions.

Although the security of the individual depends in part on programs such as old-age, survivors, and disability insurance that assure a source of income when earnings stop, security depends even more fundamentally on the continued ability of our society to produce a large volume of goods and services under conditions of economic stability. The Council has not considered it part of its task to evaluate in detail the effect of this system of social insurance on the stability and productivity of the economy. Our judgment is, however, that the program, if maintained on a sound basis, can be of great benefit to the economy as well as to the individual citizen. We believe that the almost universal acceptance of this program of social insurance is well-deserved and that it is a permanent institution in American life.

## II. *The Major Finding*

*The method of financing the old-age, survivors, and disability insurance program is sound, and, based on the best estimates available, the contribution schedule now in the law makes adequate provision for meeting both short-range and long-range costs.*

The Council finds that the present method of financing the old-age, survivors, and disability insurance program is sound, practical, and appropriate for this program. It is our judgment, based on the best available cost estimates, that the contribution schedule enacted into law in the last session of Congress makes adequate provision for financing the program on a sound actuarial basis.

The Council has studied the estimates of the short-range and long-range costs of the old-age and survivors insurance program, the various demographic and other assumptions on which they are based, and the basic techniques used in deriving the estimates.<sup>1</sup> The Council believes that the assumptions are a reasonable basis for forecasts extending into the distant future, and that the estimating techniques are appropriate and sound. The Council endorses the present practice under which both the estimating techniques and the assumptions are re-examined periodically to take account of emerging experience and changing conditions.

It is our judgment that the program is in close actuarial balance since the level-premium equivalent of the contribu-

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<sup>1</sup> See sec. VII B for a discussion of the estimates. The estimates referred to throughout this report are the official estimates of the Social Security Administration. The latest estimates are contained in *Actuarial Cost Estimates and Summary of Provisions of the Old-Age, Survivors, and Disability Insurance System as Modified by the Social Security Amendments of 1958*. Washington: U. S. Government Printing Office, 1958. The Report of the Board of Trustees for the fiscal year 1958 will be submitted to the Congress by March 1, 1959, and will contain both the detail of the cost estimates and a reprint of this report of the Advisory Council.



tion rates varies from the estimated level-premium cost by no more than one-quarter of 1 percent of covered payroll.<sup>1</sup> There is no advantage in trying to achieve a closer balance between estimated long-range income and outgo, especially since those estimates are subject to periodic review and such review encompasses the testing of the adequacy of the schedule of contribution rates. If earnings should continue to rise in the future as they have in the past, the level-premium cost of the present benefits, expressed as a percentage of payroll, would be lower than shown in the cost estimates we have used.

The Council is also pleased to report that under the new schedule of contributions and benefits not only is the system in close actuarial balance for the long run, but also after 1959 the income to the system is estimated to exceed the outgo in every year for many years into the future. We believe that it is important that income exceed outgo during the early years of development of the system as well as that the system be in close actuarial balance over the long range.

We have no suggestions for basic changes in the present plan of financing. We do, however, have certain specific recommendations which we believe will strengthen the plan.

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<sup>1</sup> The "level-premium cost" is the percent of covered payroll that, if charged from now on indefinitely into the future, would produce enough contribution and interest income to the fund to meet the cost of the benefit payments and administrative expenses. The "level-premium equivalent of the contribution rates" is the percent of covered payroll that, if charged from now on indefinitely into the future, would produce the same amount of income to the fund over the long-range future as will be produced by the graded schedule of contribution rates. The level-premium cost of the OASI part of the program is 8.27 percent of payroll on the basis of the intermediate cost estimates; the level-premium equivalent of the contributions is 8.02 percent of payroll. The level-premium cost of the disability insurance part of the program is 0.49 percent of payroll; the level premium equivalent of the contributions is 0.50 percent of payroll.

### III. *Summary of Other Findings and Conclusions*

The Council's recommendations are designed to supplement, not to alter, the basic provisions of the existing financing plan. Specifically, the Council endorses the contributory principle, an interest-earning fund on a limited basis, investment of the funds solely in United States Government obligations, and the other major features of the present financial arrangements.

The Council anticipates that further changes in the social security program will be needed as changes occur in the labor force, wage levels, and doubtless in other factors that in a dynamic economy will affect the appropriateness of the program. Because of these changes and such changes as may occur in the factors which enter into the actuarial cost estimates, we believe there is a need for periodic scrutiny of all factors which in any way affect the financing of the program. These factors include the maximum earnings base for determining benefits and contributions. This maximum determines the proportion of the Nation's payrolls available to finance the program and is a major factor in determining the extent to which the program pays benefits reasonably related to the past earnings of the individual. As a whole, our recommendations look toward a continuing review of the financial arrangements so that they, along with the other provisions of the program, can be kept sound and workable in a changing economy.

At this time we recommend no change in the contribution schedule. It is not certain, however, that the ultimate rate should go into effect in 1969, as provided in the present law.

A sound decision on whether there should be a change in the amount or timing of the increase scheduled for 1969 can best be made in the period just before 1969 after the advisory council then serving has evaluated the question.

The Council suggests that greater emphasis be given in the future to estimates of the probable course of the income and outgo of the system over the then ensuing 15 or 20 years. As the program reaches a greater degree of maturity and the contribution rate approaches the level of a reasonable minimum estimate of the costs over a period of many decades into the future, it will be appropriate, as it has not been in the past, to base financial decisions largely on what may be expected to take place during the period of 15 to 20 years thereafter. Estimates showing the relationship of income and outgo over the very long-range future have been and will continue to be important as a guide to policy and necessary as a brake against making commitments which, though inexpensive today, may have substantially greater costs in the long-run future. As the system matures, however, forecasts of what will happen during the shorter run will become progressively more significant and useful.

The Council recommends certain changes in the provisions governing the interest rate on the special obligations issued for purchase by the trust funds, and also certain other changes in the management of the funds that are designed to bring their earnings more nearly into line with earnings of private investors in long-term Government bonds.

#### *IV. The Plan of Financing Old-Age, Survivors, and Disability Insurance*

The plan of financing the old-age, survivors, and disability insurance program is as follows: Employees pay taxes on their annual earnings up to a maximum amount—\$4,800 beginning in 1959. Each employer pays taxes at the same rate on the first \$4,800 paid to each of his employees in the year. Year-by-year costs will grow for many years, and the law provides that tax rates will gradually increase from a combined employer and employee rate of 5 percent in 1959 to an ultimate rate of 9 percent, to be reached in 1969. The self-employed pay at a rate equal to one and one-half times the rate paid by the employee.

The contribution rates now scheduled are intended to provide enough income to meet all of the costs of the system into the indefinite future. Funds collected in the early years of the program and not needed for immediate benefit payments are invested in United States Government obligations. The interest earnings on these obligations are available to help pay for the larger cost of the system in later years. The scheduled contribution rates include a fixed one-half of 1 percent combined employer-employee contribution for disability benefits for workers and their dependents (three-eighths of 1 percent for the self-employed) and the proceeds of this tax are held in a separate fund. The administrative expenses of the system, as well as the benefits, are paid from the taxes established to finance the system.

In the following pages the Council reports on each aspect of the financing plan described above: Contributions by Employees, Employers, and the Self-Employed; The Earn-



ings Base for Contributions and Benefits; The Schedule of Contribution Rates; The Role of the Trust Funds; and The Management and Investment of the Trust Funds.

## *V. Contributions by Employees, Employers, and the Self-Employed*

*A. The Council believes that, as provided in present law, a substantial part of the cost of this program should be borne directly by those who benefit from it.*

The fact that the worker pays a substantial share of the cost of the benefits provided, in a way visible to all, is his assurance that he and his dependents will receive the scheduled benefits and that they will be paid as a matter of right without the necessity of establishing need. The contribution sets the tone of the program and its administration by making clear that this is not a program of government aid given to the individual, but rather a cooperative program in which the people use the instrument of government to provide protection for themselves and their families against loss of earnings resulting from old age, death, and disability. The Council also believes that the direct earmarked tax on prospective beneficiaries promotes a sense of financial responsibility. It is very important that people see clearly that increases in protection necessarily involve increases in costs and contributions.

We believe that the experience of the last 22 years has shown the advantages of contributory social insurance over grants from general tax funds. It is true that, up to the present time, workers as a group have not contributed a large

share of the cost of their own protection. Most workers covered in the early years of the program will contribute during only a part of their working lifetime, and, under the graduated schedule in the law, contribution rates have been low relative to the value of the protection provided. But this situation is changing. Young workers starting out under the system in recent years will contribute a substantial part of the cost of their protection.

*B. The Council believes that it is also appropriate for a substantial part of the cost of the program to be borne by an employer contribution and for the self-employed to pay a rate equal to one and one-half times the employee rate.*

Protecting the members of the labor force and their dependents against loss of income from the hazards of old-age retirement, permanent and total disability, and death is, at least in part, a proper charge on the cost of production. Moreover, business enterprises have a significant stake in assuring that orderly provision is made to meet the needs of their employees and their families for income when their working lives are over. The earmarked contribution for social security is a recognition of this stake. The direct contribution gives employers status in the program and a clear right to participate in the development of the program and in the formation of policy.

The rate for the self-employed—one and one-half times the rate paid by the employee—is a recognition of the fact that the self-employed person, in respect to his own employment, has some of the characteristics both of employee and employer. The Council has found no reason for a change in this rate.

## VI. *The Earnings Base for Contributions and Benefits*

*In an economy characterized by rising wages and salaries it is necessary to give periodic review to the maximum amount of earnings subject to contributions and credited toward benefits, since this maximum determines the proportion of the covered payrolls available to finance the program and is a major factor in determining the extent to which the program pays benefits reasonably related to the past earnings of the individual.*

The Council believes that it is an essential part of the contributory concept to have the worker pay contributions on the same amount of earnings as the amount that is credited to him for benefit purposes. Since, under a plan designed for broad social protection, it has not been considered appropriate to cover the full earnings of very high-paid employees and self-employed persons and to pay correspondingly high benefits, there has always been a maximum on the amount of earnings subject to tax and creditable toward benefits. Exactly where this maximum should be set is a difficult question. It is complicated by the fact that over the years wages and living levels tend to rise, so that any particular maximum set in the law may be soon outdated.

When the old-age and survivors insurance program first went into operation in 1937 the maximum earnings base was \$3,000, and it remained at that level until 1951. In 1938, the first year for which adequate data are available, the full earnings of 97 percent of all covered employees, and of 94 percent of regularly employed men, were included under that maximum. As wage levels rose, the percentage of workers who had all their wages credited under the program declined;

thus, by 1950, instead of the highest-paid 6 percent of regularly employed men having a part of their wages excluded, 57 percent had some of their wages excluded.

The maximum earnings base was raised to \$3,600, effective in 1951; to \$4,200, effective in 1955; and to \$4,800, effective in 1959. In 1959, it is estimated, 75 percent of the workers covered under the program, and 50 percent of the regularly employed men, will have their full earnings covered for both contributions and benefits.

Insofar as the maximum contribution and benefit base is not increased as earnings rise, the proportion of payrolls in covered employment that is taxed declines. For example, between 1938 and 1950 the proportion dropped from 92 percent to 80 percent. The proportion taxed in 1951 after the increase in the maximum to \$3,600 was 84 percent. It is estimated that the proportion taxed in 1959 will be about 83 percent.

Benefits are a higher proportion of earnings at lower earnings levels than at the higher levels. Hence raising the maximum contribution and benefit base without change in the benefit formula results in a reduction in the percentage of covered payroll needed to meet the long-range cost of the system. The cost estimates underlying the contribution schedule can be interpreted to imply that if earnings rise there will be an upward adjustment of benefits and of the earnings base. However, the tax rates required for the support of the adjusted benefits would be higher than those in the present contribution schedule if the earnings base is not increased as earnings rise.

The Council is of the opinion that there should be a maximum on earnings taxed and credited toward benefits; that the contribution should be levied on the same amount of earnings as the amount that is credited for benefits; and that



the maximum should be increased from time to time as wages rise.<sup>1</sup>

Although there is no definitive logic supporting \$4,800 as the correct amount—i. e., neither too high nor too low—for the maximum contribution and benefit base, we do not recommend any further change in the base at this time, since the change to \$4,800 is just going into effect in 1959. We assume that further consideration will be given to this maximum after the effect of the \$4,800 figure has been evaluated.

## VII. *The Schedule of Contribution Rates*

*A. The Council endorses the contribution schedule in present law on the basis of the cost estimates we have reviewed. We believe that the 1959, 1960, and 1963 rate increases should go into effect as scheduled and that conditions will probably warrant the 1966 rate increase as well. The last increase—that scheduled for 1969—will need to be evaluated in the light of the conditions current at that time and in the light of the cost estimates then available.*

As a result of the amendments of 1958, the contribution schedule in the law has been speeded up and the rates increased. The present schedule, covering both old-age and survivors insurance and disability insurance, is as follows:<sup>2</sup>

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<sup>1</sup> The Council believes it desirable to call specific attention to the fact that in the relation between the tax on earnings and the benefits paid under the old-age, survivors, and disability insurance system there is an element of progressive income taxation. Covered workers who, together with their employers, pay taxes on the higher ranges of the creditable earnings base receive less than proportionate benefit rights. This serves to make possible more than proportionate benefits for those paying taxes on the lower range of the creditable earnings base.

<sup>2</sup> As indicated in the description of the financing plan, the scheduled contribution rates include a fixed one-half of 1 percent combined employer-employee contribution for disability benefits for workers and their dependents (three-eighths of 1 percent for the self-employed). The questions discussed in the next several pages relate largely to the old-age and survivors insurance program only and grow out of the gradual imposition of the ultimate rate for that program.

Year	Contribution rate		
	Employers	Employees	Self-employed
	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>
1959.....	2½	2½	3¾
1960-62.....	3	3	4½
1963-65.....	3½	3½	5¼
1966-68.....	4	4	6
1969 and thereafter.....	4½	4½	6¾

The Council is agreed that a graded contribution schedule is sound policy. It is true that the ultimate rate is somewhat increased by the loss of interest on funds which would otherwise have been accumulated by the application of an earlier high, level rate. We believe, however, that this loss is of far less significance than would be the effect of the sudden imposition of the full rate necessary to support the program.

The Council is also agreed that the rates should be high enough in the early years of the program to cover at least year-by-year disbursements. Disbursements will ultimately be substantially greater than they are now, and we believe there is no justification for current contributors paying less than enough to cover current disbursements. Moreover, many people were disturbed to have the outgo from the Old-Age and Survivors Insurance Trust Fund greater than the income in 1957 and 1958, and in prospect in 1959. We are therefore in complete accord with the action taken by the Congress to increase the rates in 1959 and 1960. These changes are necessary to avoid an excess of outgo over income in 1960 and in the next several years.

The Council also believes that the rate increase provided by the new schedule for 1963 is justified by all the evidence now

available. Although it might prove possible to postpone the 1963 increase for a year or two, it is nevertheless clear that a rate increase will be needed soon after 1963, if not in that year, to prevent outgo from again exceeding income. We believe that there is merit in maintaining the schedule in the law unless and until there is a strong case for change.

Probably the increase scheduled for 1966 will not be necessary at that time to provide income in excess of outgo. Its effect, unless significant changes occur, will be to increase fund accumulation.<sup>1</sup> Although the Council does not regard building of a large fund as a primary goal, we nevertheless believe that it will prove desirable to have the 1966 rate go into effect. It will further the objective that the person who gets the protection should pay a substantial part of the cost of the protection. It will hasten the approach to the payment of the full rate necessary to support the system and will increase public understanding of its costs. It will reduce the shifting of costs to future members of the system. Before the 1966 rate is scheduled to go into effect, however, other advisory councils will have the opportunity to consider the timing of the introduction of this rate in the light of cost estimates and conditions current at that time.

Under the set of cost estimates we used for evaluating the contribution rate schedule, if the employer-employee contribution rate of 8 percent for the combined old-age, survivors, and disability insurance system scheduled for 1966 goes into effect in that year the income to the Old-Age and Survivors Insurance Trust Fund will exceed outgo until 1982.

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<sup>1</sup> Some have argued that an excess of income over outgo may have bad economic effects. Whether the economic effects are good or bad will depend on the general economic situation at the time and on the fiscal policies of the Government. In any event, the amounts by which the fund is increased in any year would in all probability be too small to have any effects on the economy that would be serious or that could not be readily compensated through other governmental action.

Under other sets of estimates that we examined, such income will exceed outgo for a period of from 12 years after 1965 (under estimates showing high costs) to about 80 years (under estimates showing low costs). In view of the likelihood that an increase above the 1966 rate will not be needed to cover the year-by-year costs of the program for a considerable period of time, we are doubtful whether the 9 percent rate should go into effect, as scheduled, in 1969.<sup>1</sup> However, we are not recommending that any change be made now in the schedule of contribution rates in present law. Instead, we recommend that future advisory councils, in the light of conditions current at the time of their inquiries, give study to the timing and level of any contribution rate increase to be made after the one bringing the rate to 8 percent.

Once the rate currently charged approaches the level of a reasonable minimum estimate of the costs over a period of many decades into the future, decisions about the imposition of further rate increases should be guided, in our judgment, largely by conditions expected in the 15- or 20-year period immediately ahead, including the size of the trust fund. Under such a plan a judgment of whether the last step-up in the contribution schedule should go into effect in 1969 can be best made just prior to that time.

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<sup>1</sup> It is recognized, of course, that if the long-range estimates were to remain unchanged but the imposition of the ultimate rate were postponed beyond 1969, a contribution schedule showing the system in actuarial balance would, because of this delay, have an ultimate employer-employee rate above the 9 percent in present law for the combined old-age, survivors, and disability insurance system. For example, if the 1969 rate increase were postponed until 1982, when, according to the cost estimates we have used for evaluating the contribution schedule, an increase would be needed to prevent disbursements from exceeding income, then a 9.89 percent rate would be needed in 2025 and thereafter to produce the same degree of long-range actuarial balance as the schedule in present law.



*B. The Council believes that the establishment of a contribution schedule in the law based on the concept of long-range actuarial balance is sound policy and should be continued. However, future decisions concerning the financing of the program should increasingly take into account estimates of trust fund income and outgo over the ensuing 15 or 20 years based on expected earnings and employment levels and on demographic developments.*

The Council endorses the long-standing practice adopted by Congress of including in the law a contribution schedule which according to the cost estimates places the system substantially in actuarial balance into the indefinite future. We believe this procedure to be the best way of making people conscious of the long-range cost of the current provisions of the program and of the cost of proposals to modify the present program.

The long-range estimates of the cost of the program are presented in the form of a range, showing the effect of assumptions resulting in high costs, and other assumptions resulting in low costs. Reflecting the great uncertainties attached to costs that may develop in the more distant future, these estimates indicate a broad spread in the possible range of program costs toward the end of the present century and in the first half of the next century. For purposes of financial planning, the practice has been to take an average of the high-cost and low-cost estimates to obtain so-called intermediate cost estimates. On the basis of these intermediate cost estimates a schedule of contribution rates is developed to provide contribution income sufficient to meet the costs of the system as they fall due from the present into the long-range future. The Council has examined these estimates and believes that the assumptions on which they are

based are reasonable and that the methods used in making them are sound.

The long-range cost estimates, based as they are on assumptions reflecting the possible variations in long-range trends in such cost factors as fertility, mortality, retirement rates, and family composition, while producing a wide range in possible costs several decades ahead, show a fairly narrow range in possible costs in the shorter-run future. This is because the economic factors which may show significant ups and downs in the short run are assumed in the long-range estimates to have a smooth trend. Thus, for example, the estimates assume that the volume of employment will average out over the long run somewhat below full employment. The estimates also assume that average annual earnings will remain level.<sup>1</sup> However reasonable these assumptions may be for the long-range estimates, they cannot be used for estimates designed to show expected operations over a short-run period. Here the possible variations arising from the economic factors will be very significant, and the Council believes that there is need for cost estimates that take these economic factors into account.

As stated above, the Council believes that when the contribution rate approaches the level of a reasonable minimum estimate of the costs over a period of many decades into the future, decisions about the imposition of further rate increases,

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<sup>1</sup> The assumption that average earnings will remain level is not, of course, in accord with what has been happening in this country throughout its history. If average earnings do in fact continue to rise and if no changes are made in benefit levels, the costs of the program, expressed as a percentage of payroll, will be lower than those shown in the estimates. In this sense it can be said that the estimates overstate the costs of the benefit provisions now in the law. As a practical matter, however, it may be expected that, as average earnings continue to rise, there will be an upward adjustment of benefits. If the added cost resulting from such adjustment is sufficient to balance the reduction in the cost of the program that results from rising average earnings, the level-premium cost of the program, expressed as a percentage of payroll, will be the same as is shown in the estimates.

if needed, should be guided largely by estimates covering a period of 15 or 20 years. Like the estimates covering the period of 5 future years that are presented in the Annual Reports of the Board of Trustees, these 15- or 20-year forecasts should be based on assumptions which take into account future developments with respect to economic as well as population changes.

## VIII. *The Role of the Trust Funds*

*A. The Council approves of the accumulation of funds that are more than sufficient to meet all foreseeable short-range contingencies, and that will therefore earn interest in somewhat larger amounts than would be earned if the funds served only a contingency purpose. The Council concludes, however, that a "full" reserve is unnecessary and does not believe that interest earnings should be expected to meet a major part of the long-range benefit costs.*

Income not currently needed for benefits is held in two trust funds—the Old-Age and Survivors Insurance Trust Fund and the Disability Insurance Trust Fund. These trust funds serve two primary purposes: (1) they are contingency reserves for use in temporary situations when current income is less than current outgo; and (2) they are a source of investment income which helps pay the benefits and administrative costs of the program.

As contingency reserves, the assets of the trust funds are available, when needed, to supplement current receipts in periods when disbursements may temporarily rise above income. The Council believes the trust funds are and will continue to be larger than would be required for contingency

purposes alone. Both the trust funds are expected to grow for many years and should remain well in excess of foreseeable contingency needs.

Although larger than needed for contingency purposes, the trust funds will continue to be considerably less than would be required under "full reserve" financing, often used for private pension plans. The "full reserve" basis contemplates the accumulation during an initial period of very substantial funds which, if the pension plan were to cease operating, would be available to discharge existing liabilities. These are liabilities to the then current beneficiaries and the liabilities accrued to date for those still in active employment. In a national compulsory social insurance program it can properly be assumed that the program will continue to collect contributions and to pay benefits indefinitely into the future. The old-age, survivors, and disability insurance program therefore does not need a full reserve. It may be considered to be in actuarial balance when estimated future income from contributions and from interest on the investments of the accumulated trust funds will, over the long run, support the estimated disbursements for benefits and administrative expenses.

Although the Old-Age and Survivors Insurance Trust Fund will be only a fraction of the "full reserve," as defined above, it will grow to considerable size and play a significant role as an interest-earning fund. Interest will, of course, be available to help pay benefit costs and to some extent will make later contribution rates lower than they would otherwise have to be. Interest earnings since the program began, in 1937, have already totaled over \$5 billion.

In a dynamic system of social insurance, the significance of the role played by an interest-earning fund is quite differ-



ent from what it would be under a static system. If benefits are adjusted upward as earnings levels rise, then the interest earnings on a fund of any given size will meet a decreasing proportion of benefit costs. In the light of potential increases in earnings and benefits as decades pass, we believe it unwise to count on interest to meet a major part of the costs of the program in the far-distant future.

We see no merit in the provision of present law which requires the Trustees to report to the Congress whenever, in the course of the next 5 years, it is expected that either of the trust funds will exceed three times expenditures in any one year. The implication of the provision is that the trust funds should not be allowed to exceed the result of this formula. We do not believe that the trust funds should be held to any arbitrary relationship to expected annual expenditures, and we recommend that the provision be repealed.

*B. The investment of the trust funds in United States Government obligations is a proper use of the excess of income over outgo for the benefit of the contributors to the funds. The trust funds are properly kept separate from the general fund of the Treasury and have the same lender status as other investors in Federal securities.*

The Council is aware that there is some misunderstanding concerning the nature of the trust funds of the program and their distinct separation from the general Treasury account. The members are in unanimous agreement with the advisory councils of 1938 and 1948 that the present provisions regarding the investment of the moneys in these trust funds do not involve any misuse of these moneys or endanger the funds in any way, nor is there any "double taxation" for social security purposes by reason of the investment of these funds in Government obligations.

Each of these trust funds is kept completely separate from all other funds in the Treasury. The income and disbursements of the Old-Age and Survivors Insurance Trust Fund and the Disability Insurance Trust Fund are not included in the administrative budget of the Government. Instead, the President reports their operations separately in his Budget Message to Congress. The debt obligations held by the trust funds are shown in Treasury reports as part of the Federal debt, and interest payments on these obligations are regularly made by the Treasury to the trust funds. The securities are sold or redeemed whenever necessary to obtain cash for disbursement by these funds.

When the trust fund receipts not needed for current disbursements are invested in Government securities, the funds are lenders and the United States Treasury is the borrower. The trustees of the funds receive and hold Federal securities as evidence of these loans. These Government obligations are assets of the funds, and they are liabilities of the United States Government, which must pay interest on the money borrowed and must repay the principal when the securities are redeemed or mature.

The marketable securities held by the funds are identical in every way with Federal bonds bought and sold on the open market by other investors in Federal securities. The special obligations issued directly to the funds are public debt obligations backed by the full faith and credit of the United States. Interest on, and the proceeds from the sale or redemption of, securities held by each of the two trust funds are credited to and form a part of each fund. Thus the trust funds are completely separate from the general fund of the Treasury and have the same status as lenders that other investors in Federal securities have.

The confusion that there is "double taxation" for social security purposes arises because, in addition to paying social security taxes, people must also pay taxes to pay interest on, and repay the principal amount of, the obligations held by the trust funds. But the taxes that must be raised to pay interest on these obligations, or to repay the principal, are not levied for social security purposes. They are levied to meet the costs of the defense program and the other purposes for which the borrowed money was expended by the Treasury in accordance with congressional appropriations. If the trust funds did not exist, money for these purposes would have been borrowed from other sources, and in this case, too, taxes would have to be raised to pay interest and principal on the borrowings. The purchase of Government obligations by the trust funds is financially sound in relation to both the social security program and the fiscal operations of the Federal Government.

## IX. *The Management and Investment of the Trust Funds*

*A. The investment of the trust funds should continue to be restricted to interest-bearing obligations of the United States Government or to obligations guaranteed as to principal and interest by the United States.*

The Council recommends that investment of the trust funds should, as in the past, be restricted to obligations of the United States Government. Departure from this principle would put trust fund operations into direct involvement in the operation of the private economy or the affairs of State and local governments. Investment in private business

corporations could have unfortunate consequences for the social security system—both financial and political—and would constitute an unnecessary interference with our free enterprise economy. Similarly, investment in the securities of State and local governments would unnecessarily involve the trust funds in affairs which are entirely apart from the social security system.

*B. The investment of the trust funds should be in obligations having maturities which reasonably reflect the long-term character of the funds.*

The bulk of the assets of the trust funds will be on continuous loan to the Federal Treasury, and therefore the funds' investments are essentially long-term in character. The maturities of special issues should reflect this fact. Before the 1956 amendments to the Social Security Act, the law included no provision regarding the maturities of special obligations issued for purchase by the trust funds. Up to that time, special issues had been 5-year notes or 1-year (or less) certificates of indebtedness. The 1956 amendments added the provision that special issues shall have “. . . maturities fixed with due regard for the needs of the trust funds. . . .” This requirement has been interpreted by the Managing Trustee to mean maturities of 5 years or longer. Accordingly, he inaugurated a program to lengthen gradually the maturities of special obligations issued to the trust funds. The special issues held by the funds on June 30, 1958, consisted of 1-year certificates, 2- to 5-year notes, and 6- to 10-year bonds.



*C. Each special obligation issued for purchase by the trust funds should carry a rate of interest that, in principle, equals the rate of return being realized by investors who purchase long-term Government securities in the open market at the time the special obligation is issued.<sup>1</sup>*

The Council believes the rate of return on trust fund investments in special issues should be comparable to what the Treasury would have to pay for long-term money if borrowed from other investors. Such a rate of return seems to us the way to avoid either a financial advantage or disadvantage to the funds. Such a rate on special issues would go a long way toward eliminating any conflict of interest that might be encountered by the Secretary of the Treasury, acting both as the principal fiscal officer of the Government and as manager of the trust funds, in deciding whether to invest trust fund assets in marketable obligations or in special issues.

The provision in the present law for setting the interest rate on the special issues needs revision in order to make possible the attainment of this policy. The present law requires that special obligations issued for purchase by the trust funds bear interest at a rate equal to the average rate of interest, computed as of the end of the month preceding the date of issue, on all marketable interest-bearing public debt obligations that are not due or callable until after the expiration of 5 years from date of original issue. The interest rate on special obligations issued to the trust funds at the beginning of fiscal year 1959 was  $2\frac{5}{8}$  percent. During recent years about nine-tenths of the Old-Age and Survivors Insurance Trust Fund investments have been in special obligations;

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<sup>1</sup>It is recognized that the Managing Trustee may need to keep a minor part of the funds in short-term securities, at an interest rate appropriate thereto, to meet immediate prospective needs.

on June 30, 1958, about 95 percent of the Disability Insurance Trust Fund investments were in special obligations.

The Council endorses the policy in present law which relates the interest rate on special obligations to the interest rate on long-term marketable obligations. This policy correctly identifies the special obligations as being primarily long-term investments.

We recommend, however, that two changes be made in the law in order that the rate of return on special obligations be as nearly as possible equal to the rate being realized by investors who purchase long-term Government securities in the open market at the time such a special obligation is issued. The rate on each special obligation should be made equal to the average *market yield* on long-term marketable Federal obligations outstanding when the special obligation is issued, rather than to the average *coupon rate* of such marketable obligations. This change would cause the interest rate on the obligations issued for purchase by the trust funds to reflect the market rate of return prevailing at the time of issuing any given block of securities to the trust funds. The average yield should be computed on the basis of market quotations in a recent past period, such as the month preceding the special issue, and, as at present, the average so computed should be rounded to the nearest one-eighth of 1 percent.

The second change we recommend is that the interest rate fixed for a special obligation should be based on the average rate of return on all outstanding marketable Federal obligations that will mature more than, say, 5 years after the date of the special issue, rather than on all bonds that are not due or callable until after 5 years from the date when they were originally issued.<sup>1</sup> This change is necessary to eliminate

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<sup>1</sup> See footnote on page 24.

from the computation those bonds which have in fact become short-term obligations.

In adjusting to the proposed new statutory formula, we believe a gradual and orderly transition over a period of several years would be desirable. We recommend, therefore, that before the new formula becomes effective the present maturity distribution of the special obligations held in the funds be reviewed and, if need be, adjusted to carry out this broad objective.

*D. Investment of the trust funds, as at present, should be either in special issues or in public issues, but the statute should be amended to provide that public issues may be acquired only when they will provide currently a yield equal to or greater than the yield that would be provided by the alternative of investing in special issues.*

With the adoption of a statutory formula giving to the trust funds a return based on market rates of interest, we believe it is proper for the bulk of the funds to be invested in special obligations. Investment in special issues has the great advantage of avoiding disturbances of the capital market. At the same time, the Council believes that it would be desirable to continue to allow the Managing Trustee to invest in public issues when he finds that it is in the public interest to do so, provided such investment would involve no sacrifice of income to the funds.

From time to time, circumstances arise in which investment of trust fund assets in public obligations may be in the public interest. At a time of declining bond prices, for example, purchase of public issues on the open market may help preserve the asset value of Federal securities held by private investors. It may also assist the Treasury Depart-

ment in the sale of new issues of Federal securities at a time when the market for Government bonds is unfavorable.

We recognize that it has been the practice of the Managing Trustee to purchase marketable obligations for the trust funds only if the current yields on the marketable obligations exceed what would be obtained by purchasing special obligations. The Council believes, however, that it would be desirable to make this practice a statutory obligation. The Council therefore recommends adoption of a provision allowing purchase of marketable securities only when such purchase is in the public interest and would provide currently a yield equal to or greater than the alternative of investing in special issues. This provision would supersede the present statutory provision that special issues shall be purchased only if it is not in the public interest for the trust funds to purchase other Federal securities.

*E. The law should be amended to state that the Board of Trustees as a whole has the responsibility to review the general policies followed in managing the trust funds, and to recommend changes, as needed, in the provisions of the law that govern the way in which the trust funds are to be managed. In keeping with the nature of its responsibilities, the intervals between meetings of the Board should be not more than 6 months.*

The Council believes that the present statutory provision giving full authority for management of the operations and investments of the trust funds to the Secretary of the Treasury as Managing Trustee is sound. Generally the Secretary of the Treasury, by reason of his position and experience, is the person in the Government who is best equipped for this responsibility. However, the Council believes that all members



of the Board of Trustees should participate in the review of the general policies followed in the management of the trust funds. We, therefore, recommend an amendment to the law to give more specific recognition to the responsibility of trusteeship of all members of the Board and to require that the intervals between meetings be not more than 6 months.

*F. The Council has examined broadly the way administrative expenses are charged to the trust funds and the financial provisions relating to the Railroad Retirement Account and to the coverage of the members of the armed forces and believes that the arrangements are fair.*

The Council believes that the trust funds should be treated in all respects as funds held in trust, bearing their proper share of expense but not operating so as to subsidize other activities of government.

The Council did not look, in great detail, into the question of the charging of administrative expenses, but we believe that with relatively minor exceptions all administrative costs are being charged to the trust funds. These include the administrative expenses of the Bureau of Old-Age and Survivors Insurance, the expenses incurred by the Internal Revenue Service in the collection of social security taxes, and expenses incurred by other units of the Department of Health, Education, and Welfare and of the Treasury Department in connection with old-age, survivors, and disability insurance. The administrative expenses of the total program, although charged to the respective trust funds, are subject to the regular appropriation procedures of Congress.

Under the 1951 amendments to the Railroad Retirement Act, wage credits accumulated under the railroad retirement

system by workers who die or retire with less than 10 years of railroad employment are transferred to the workers' accounts under the old-age, survivors, and disability insurance program. Benefit payments are made by the old-age, survivors, and disability insurance program on the basis of the combined earnings records. Retirement and disability benefits are payable under both programs to workers with 10 or more years of railroad service who also qualify under old-age, survivors, and disability insurance. The survivors of workers with 10 or more years of railroad service receive benefits under one program or the other based on combined wage records. Each year the two agencies jointly determine the amount of money which, if transferred from the Railroad Retirement Account to the Old-Age and Survivors Insurance Trust Fund or vice versa, would place the trust fund in the same position it would have been in if railroad employment had always been covered under the Social Security Act. The amount so determined is transferred. There is provision for similar annual interchanges between the Railroad Retirement Account and the Disability Insurance Trust Fund beginning with the fiscal year 1958. This is an arrangement which seems to us to be fair to both programs.

Beginning January 1, 1957, contributory coverage was extended to members of the uniformed services. Noncontributory wage credits of \$160 a month have been provided to persons who served in the armed forces from September 16, 1940, through December 31, 1956. In addition, provision had been made for noncontributory survivors insurance protection for certain World War II veterans for a period of 3 years following their discharge from the armed forces. The Old-Age and Survivors Insurance Trust Fund received reimbursements from the general fund of the Treasury for the

additional costs of these survivor benefits paid before September 1, 1950. Under the 1956 amendments, the additional costs of the survivor benefits after August 31, 1950, and all past and future expenditures arising from the noncontributory military wage credits, will be met by reimbursements from the general fund to the appropriate trust funds. These reimbursements should not be regarded as a Government contribution or as a departure from the policy of self-support. Instead, these contributions are made by the United States Government from general funds in its capacity as employer of the members of the armed forces.

## *X. Conclusion*

In conclusion, the Council would reiterate what we have said earlier in this report: In a dynamic society a program of old-age, survivors, and disability insurance requires periodic review of its operations to assure that its effectiveness is maintained. The Council is pleased to report that according to the best cost estimates available the contribution schedule now in the law makes adequate provision for meeting the cost of the benefits provided. We have found that the method of financing is sound and that no fundamental changes are required or desirable. Our recommendations are intended to strengthen the measures necessary to carry out the basic principles inherent in the program.







# The Status of the Social Security Program and Recommendations for Its Improvement

Report of the Advisory Council  
on Social Security

Washington  
1965



## Letter of Transmittal

January 1, 1965

The Board of Trustees  
of the Federal Old-Age and  
Survivors Insurance and Disability  
Insurance Trust Funds  
Washington 25, D.C.

Gentlemen:

As required by section 116 of the Social Security Amendments of 1956 there is transmitted herewith the report of the Advisory Council on Social Security appointed in 1963. The report, as directed by law, includes the Council's findings and recommendations with respect to the financing of the old-age, survivors, and disability insurance program, and all other aspects of the program, including extensions of coverage and the adequacy of benefits.

Sincerely yours,

ROBERT M. BALL,  
*Chairman, Advisory Council  
on Social Security*





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## Foreword

As required by law, this Advisory Council was appointed by the Secretary of Health, Education, and Welfare in 1963. It is the second Advisory Council appointed under the Social Security Amendments of 1956. The first was appointed in 1957 and made its report on January 1, 1959. Under the law other advisory councils are to be appointed in 1966 and every fifth year thereafter.

Like the preceding Council and the councils to be appointed in the future, the present Council is required to review the status of the Federal Old-Age and Survivors Insurance Trust Fund and of the Federal Disability Insurance Trust Fund in relation to the long-term commitments of the social security program and to make a report of its findings and recommendations, including recommendations for changes in the social security tax rates. In addition, however, the law gives the present Council a special mandate; it provides that the Council "shall, in addition to the other findings and recommendations it is required to make, include in its report its findings and recommendations with respect to extensions of the coverage of the old-age, survivors, and disability insurance program, the adequacy of benefits under the program, and all other aspects of the program."

This Council, although only the second in the series established by the 1956 amendments, is the sixth major advisory group to consider social security in a long tradition of seeking advice and guidance from expert opinion and from those affected by the program. The first of these advisory groups played an important role in shaping the recommendations of the Executive Branch that led to the creation of the social security program in 1935. Additional groups appointed in 1938 and 1948 made broad studies of social security, and their recommendations played an important part in shaping the present program. A group appointed in 1953 dealt with extensions of coverage, and the one appointed in 1957 dealt only with financing.

The Council has studied the social security program for the last year and a half. It held its first meeting on June 10 and 11, 1963, and met frequently throughout the rest of 1963 and during



1964. Between meetings the Council continued its analysis of the program through a study of extensive materials. In addition, a subcommittee of three members, with the aid of two insurance company actuaries and one from organized labor as well as the actuarial staff of the Social Security Administration, has conducted a technical review of the practices followed in preparing the actuarial estimates for the program and reported its findings to the Council.

The Commissioner of Social Security, acting *ex officio* as Chairman of the Council in accordance with the provisions of law establishing the Council, has been presiding officer at the Council's meetings, and in other ways has helped to forward the work of the Council. As a government official, however, he has not taken a position on the recommendations of this essentially nongovernmental group.

The Council wishes to express its appreciation of the assistance of the staff of the Social Security Administration. The technical competence of the staff has been invaluable to the Council in conducting its review of the program.

## **Membership of the Council**

Robert M. Ball, Commissioner of Social Security, Chairman  
J. Douglas Brown, Dean of the Faculty, Princeton University  
Kenneth W. Clement, M.D., Practicing Physician and Immediate  
Past President, National Medical Association  
Nelson H. Cruikshank, Director, Department of Social Security,  
American Federation of Labor and Congress of Industrial Orga-  
nizations  
James P. Dixon, M.D., President, Antioch College  
Loula F. Dunn, Director, American Public Welfare Association,  
1949–1964  
Marion B. Folsom, Director and former Treasurer, Eastman Kodak  
Company  
Gordon M. Freeman, President, International Brotherhood of Elec-  
trical Workers  
Reinhard A. Hohaus, Director, Metropolitan Life Insurance Com-  
pany, and Fellow, Society of Actuaries  
Arthur Larson, Director, Rule of Law Research Center, Duke  
University  
Herman M. Somers, Professor of Politics and Public Affairs, Prince-  
ton University  
John C. Virden, Chairman of the Board, Eaton Manufacturing  
Company  
Leonard Woodcock, Vice President, United Automobile, Aerospace  
and Agricultural Implement Workers of America



# Introduction

A generation ago the United States established a system of contributory social insurance providing protection against the loss of earnings due to retirement in old age. Under this system employees, together with their employers, and self-employed persons make contributions during their working years and receive a continuing income for themselves and their families when they no longer have income from work.

As enacted in 1935 this social security program was limited to the risk of retirement in old age, and it was limited in coverage to industrial and commercial employees. Today, the program covers practically all kinds of employment and self-employment, and provides benefits for the wives and children of retired workers as well as for the retired worker himself. It provides benefits, also, for survivors of deceased workers and for totally disabled workers and their dependents when the disability is expected to be of long-continued and indefinite duration. Over the years the program has been improved and broadened in other ways as well. From time to time benefits have been increased, and other adjustments have been made, to take account of social and economic change and to improve the protection provided.

For the vast majority of Americans this Federal program of social security gives assurance that old age, total disability or death will not mean the end of a regular family income. Some 20 million men, women and children—1 out of 10 Americans—are receiving social security benefits every month. During 1964 about 77 million earners paid social security contributions. Nine out of ten children and their mothers can look to the program for a regular income if the head of the family should die. Over 85 percent of the people past 65 are either getting benefits or will be entitled to benefits when they or their husbands retire. About 53 million workers have now worked long enough in covered employment so that they and their families have disability insurance protection.



The Council strongly endorses the social insurance approach as the best way to provide, in a way that applies to all, that family income will continue when earnings stop or are greatly reduced because of retirement, total disability or death. It is a method of *preventing* destitution and poverty rather than relieving those conditions after they occur. And it is a method that operates through the individual efforts of the worker and his employer, and thus is in total harmony with general economic incentives to work and save. It can be made practically universal in application, and it is designed so as to work in ongoing partnership with voluntary insurance, individual savings, and private pension plans.

Under the social security program the right to benefits grows out of work; the individual earns protection as he earns his living, and, up to the maximum amount of earnings covered under the program, the more he earns the greater is his protection. Since, unlike relief or assistance, social security benefits are paid without regard to the beneficiary's savings and resources, people can and do build upon their basic social security protection and they are rewarded for their planning and thrift by a higher standard of living than the benefits alone can provide.

The fact that the program is contributory—that employees and self-employed workers make contributions in the form of earmarked social security taxes to help finance the benefits—protects the rights and dignity of the recipient and at the same time helps to guard the program against unwarranted liberalization. The covered worker can expect, because he has made social security contributions out of his earnings during his working lifetime, that social security benefits will be paid in the spirit of an earned right, without undue restrictions and in a manner which safeguards his freedom of action and his privacy. Moreover, the tie between benefits and contributions fosters responsibility in financial planning; the worker knows that improved benefits mean higher contributions. In social insurance the decision on how to finance improvements is always an integral part of the decision on whether they are to be made.

Because of these characteristics of social insurance the Council believes that where it can be properly applied it is much to be preferred to the method of public assistance, with its test of individual need, and the Council therefore strongly favors the improvement of social insurance as a way of reducing the need for assistance. The Council recognizes the need for an adequate public assistance program, but it believes that assistance should play the role of a secondary and supplemental program designed to meet special needs

and circumstances which cannot be dealt with satisfactorily by other means.

No matter how well designed and administered, assistance has serious inherent disadvantages in terms of human dignity and incentives to work and save. People view receipt of assistance as meaning a loss of self-support. In contrast, they view social insurance as an extension of self-support. People who have led productive lives and have supported themselves through their own efforts do not want to see their self-reliance end with their ability to work.

Moreover, applying for assistance is at best a negative experience. Eligibility for assistance depends upon the individual's asking the community for help and proving that he is without the resources and income to support himself and his family. On the other hand, under social insurance the individual proves, not that he lacks something, but that he has worked and contributed, and has thus earned a right to a benefit.

In all its considerations a primary concern of the Council has been the financial soundness of the program. Clearly, no change in the program should be made, and no present trend should be permitted to continue, if the result were to jeopardize financial soundness in any way. In the light of this primary concern, the Council has undertaken to assure that the financing will be sufficient to meet all benefit and administrative costs as they fall due.

The Council has also considered the economic impact of the program. In important respects the program supports consumer demand and helps to prevent deflation. Because of social security, 20 million retired people, disabled people, widows and orphans now have an assured regular income which, of course, continues undiminished even when other segments of consumer income decline. Moreover, the program operates automatically to compensate in part for the loss of income arising from the higher rate of retirement that occurs when the general level of employment declines.

The Council is concerned, however, about the deflationary effect of the present contribution schedule in the years just ahead. Under that schedule there would be a shift from an approximate balance of income and outgo in 1965 to an annual rate of trust fund accumulation of about \$4 billion beginning in 1968. The Council recommends a large reduction in the size of these accumulations.

The Council is concerned also that in both the short run and the long run, the economic impact should be reasonable and should be capable of being absorbed by the economy and by the employee,

employer and the self-employed without undue burden or strain. For this reason the Council is recommending that needed increases in both the contribution rate and the contribution and benefit base be put into effect gradually so that there will not be large changes in the level of contributions at any one time.

The Council's major recommendation in the pages that follow is for the extension of the program so that workers (and their employers) and the self-employed will make contributions during their working years in order to have protection against the cost of hospital care and related services in old age or in the event of permanent and total disability. The Council believes that the time has come to apply the method of social insurance to this pressing problem in order to assure the continuing effectiveness of retirement protection. While social security cash payments, if adequate, can assure that the older person and his family, or the disabled person and his family, will be able to meet regularly recurring, budgetable costs of food, clothing and shelter, they cannot in practice be made sufficient to replace the need for insurance protection against the large and uncertain costs of hospital care. If our social insurance system is to be truly effective in preventing both dependency and the fear of dependency, the system must be broadened to include hospital insurance for the aged and the totally disabled. Otherwise more and more of these people will have to turn for help to public assistance—with all the disadvantages that this has for them and for society as a whole.

The Council is also concerned that the social security cash payments be made more adequate and, particularly, that the system take into account increases in prices and earnings levels that have occurred since the last time major revisions were made in the benefit provisions. One of the strengths of social insurance is its ability to adjust to changing economic conditions so that retired and disabled persons and survivors can share on a reasonable basis in the increasing productivity of our economy.

Other major recommendations of the Council relate to the way in which the social security program is financed, the maximum amount of annual earnings taxable and creditable toward benefits under the program (the contribution and benefit base) and the level of benefits and extensions of coverage.

The Council's recommendations, together with the considerations which prompted them, are presented in three parts. Part I presents the Council's findings with respect to the financing of the

social security program, assuming no changes in the benefit and coverage provisions. Part II presents recommendations for an extension of the program to help meet the cost of hospital care and related services for the aged and the totally disabled. Part III of the report presents the Council's recommendations for improving the cash-benefit provisions, extending the coverage of the program and financing the recommended changes.





# Summary of Major Findings and Recommendations

## I. FINANCING THE PRESENT PROGRAM

The Council has examined the financing of the present program apart from any changes which it is recommending and has found as follows:

1. *The Status of the Program and Allocation of Contribution Income.*—The social security program as a whole is soundly financed, its funds are properly invested, and on the basis of actuarial estimates that the Council has reviewed and found sound and appropriate, provision has been made to meet all of the costs of the program both in the short run and over the long-range future. The contribution income should be reallocated between the two trust funds, however, so that the disability insurance part of the program, like the old-age and survivors insurance part of the program and the program as a whole, will be in close actuarial balance.
2. *Adjustment in the Contribution Rate Schedule in the Short Range.*—The contribution rates now scheduled in the law should be adjusted to avoid the rapid increase in trust fund assets that will otherwise begin with the rate increases scheduled for 1966 and 1968.
3. *The Contribution Rates in the Long Range.*—There should continue to be included in the law a schedule of contribution rates which, according to the intermediate-cost estimates, will be sufficient to support the program over the long-range future. However, decisions about putting future rate increases into effect, once the rates actually being charged are high enough to cover the long-range cost of the program as shown by a reasonable minimum estimate, should be guided largely by estimates of program costs over a 15- or 20-year period.
4. *The Contribution and Benefit Base.*—The maximum amount of annual earnings that is taxable and creditable toward benefits needs to be substantially increased in

order to maintain the wage-related character of the benefits, to restore a broader financial base for the program and to apportion the cost of the system among low-paid and higher-paid workers in the most desirable way.

5. *The Contribution Rate for the Self-Employed.*—Increases in the social security contribution rate for the self-employed beyond the present rate should be put into effect gradually, and only to the extent that the ultimate rate will be no more than 1 percent of earnings greater than the rate paid by employees.
6. *Maintaining the Integrity of the Trust Funds.*—To maintain the integrity of the trust funds, the reimbursement of the trust funds for the cost of paying social security benefits based on military service for which no contributions were paid should begin without further delay and the Board of Trustees should be given specific responsibility for reviewing those administrative charges against the trust funds which are based on estimates rather than on actual costs.

## II. HOSPITAL INSURANCE FOR OLDER PEOPLE AND THE DISABLED

The Council proposes hospital insurance protection for those 65 or over and for disabled social security beneficiaries as follows:

1. *Inpatient Hospital Benefits.*—The proposed hospital insurance for people age 65 or over and the disabled should cover a number of days sufficient to meet the cost of inpatient hospital services for the full stay of almost all beneficiaries.
2. *Outpatient Hospital Diagnostic Services.*—Payment under the program should be made for the costs of outpatient hospital diagnostic services furnished beneficiaries.
3. *Deductibles.*—Hospitalized beneficiaries should pay a deductible equal to the cost of one-half day of care—\$20 at the program's beginning. In the case of beneficiaries who are provided outpatient diagnostic services, this deductible amount should be applied for each 30-day period during which diagnostic services are provided.
4. *Services in Extended-Care Facilities.*—The cost of post-hospitalization extended-care services in facilities which provide high-quality rehabilitative and convalescent services should be covered so as to pay for a minimum number of days after hospitalization in all cases, with

additional days of extended-care services being paid for if the patient has not used all of his inpatient hospital coverage.

5. *Organized Home Nursing Services.*—Insurance coverage should be provided for organized home nursing services.
6. *Payments on the Basis of Reasonable Cost.*—The extent of hospital insurance and related protection should be specified in terms of the services covered rather than in terms of fixed dollars, and covered services should be paid for on the basis of the full reasonable cost of the services.
7. *Hospital Staff Review of Utilization.*—Hospitals should be required, as a condition of participation, to establish professional staff committees to review the services utilized.
8. *Administration.*—The proposed hospital insurance provisions should be administered by the same Federal agencies which administer the social security program but in carrying out this responsibility the Federal Government should use private and State agencies to the extent that these agencies can contribute to efficient and effective operation.
9. *The Basis of Eligibility for Benefits.*—Hospital insurance benefits should be provided for aged and disabled beneficiaries of the social security program, and special provision should be made for the next few years for those who have not met the requirements of eligibility under the program.
10. *Financing.*—The proposed hospital insurance program should be financed by a special earmarked contribution of 0.4 percent of covered earnings from employees and from employers, and 0.5 percent from the self-employed, with an 0.15 percent contribution from Federal general revenues to cover the cost of benefits for those already retired or disabled.

### III. IMPROVEMENTS IN THE CASH-BENEFIT PROVISIONS

The Council has examined all aspects of the present program of cash benefits and is recommending changes as follows:

#### Social Security Benefit Amounts

1. *The Period for Computing Benefits for Men.*—The period for computing benefits (and insured status) for men



should be based, as is now the case for women, on the period up to the year of attainment of age 62, instead of age 65 as under present law, with the result that 3 additional years of low earnings would be dropped from the computation of retirement benefits for men.

2. *A General Increase in Benefits.*—A general increase in benefit amounts, accomplished by a change in the way the benefit formula is constructed, should be provided to take into account increases in wages and prices since the last general benefit increase in 1958, and the maximum on monthly family benefits should be related to earnings throughout the benefit range.
3. *The Maximum Lump-Sum Death Payment.*—The maximum lump-sum death payment should not be set in terms of an absolute dollar limit but rather should be the same as the highest family maximum monthly benefit.

#### Dependents' and Survivors' Benefits

4. *Children Over Age 18 Attending School.*—Benefits should be payable to a child until he reaches age 22, provided the child is attending school between ages 18 and 22.
5. *Disabled Widows.*—The disabled widow of an insured worker, if she became disabled before her husband's death or before her youngest child became 18, or within a limited period after either of these events, should be entitled to widow's benefits regardless of her age.
6. *Definition of Child.*—A child should be paid benefits based on his father's earnings without regard to whether he has the status of a child under State inheritance laws if the father was supporting the child or had a legal obligation to do so.

#### Disability Benefits

7. *Young Disabled Workers.*—Young workers who become disabled should have their eligibility for benefits determined on the basis of a test of substantial and recent employment that is appropriate for such workers.
8. *Rehabilitation of Disability Beneficiaries.*—The social security program should pay the costs of rehabilitation for disability beneficiaries likely to be returned to gainful work through such help, with the rehabilitation services being provided through State vocational rehabilitation agencies.

## Eligibility for Benefits

9. *Insured Status.*—The Council recommends retention of a requirement of covered work as a test of eligibility for benefits, and has no major changes to recommend in the present provisions.
10. *Retirement Test.*—The provision in the law that prevents the payment of benefits to a person with substantial earnings from current work—the retirement test—is essential in a program designed to replace lost work income and should be retained.

## Extending the Coverage of the Program

11. *Doctors of Medicine.*—Self-employed doctors of medicine should be covered on the same basis as other self-employed people now covered, and interns should be covered on the same basis as other employees working for the same employer.
12. *Tips.*—Social security contributions should be paid on tips an employee receives from a customer of his employer, and tips should be counted toward benefits.
13. *Federal Employees.*—Social security credit should be provided for the Federal employment of workers whose Federal service was covered under the civil service retirement system but who are not protected under that system at the time they retire, become disabled, or die.
14. *State and Local Government Employees.*—The coverage of additional State and local government employees should be facilitated by making available to all States the option of covering only those present members of State and local government retirement system groups who wish to be covered, with coverage of all new members of the group being compulsory. Also, policemen and firemen in all States should be provided the same opportunity for coverage as other State and local government employees.

## The tax rates needed to finance the changes recommended by the Council

(The contribution rates under present law are applicable to annual earnings up to \$4,800; the proposed contribution rates would apply to annual earnings of \$4,800 in 1965, \$6,000 in 1966 and 1967 and \$7,200 in 1968 and thereafter.)

<i>Period</i>	<u>Employee and Employer, Each</u>			<u>Self-Employed</u>		
	<i>OASDI</i>		<i>Hospital Insurance</i> <sup>1</sup>	<i>OASDI</i>		<i>Hospital Insurance</i> <sup>1</sup>
	<i>Pres. Law</i>	<i>Proposed</i>		<i>Pres. Law</i>	<i>Proposed</i>	
1965	3. 625	3. 625	—	5. 4	5. 4	—
1966-67	4. 125	4. 3	0. 4	6. 2	5. 8	0. 5
1968-70	4. 625	4. 3	0. 4	6. 9	5. 8	0. 5
1971-75	4. 625	4. 7	0. 4	6. 9	6. 0	0. 5
1976 and after	4. 625	5. 3	0. 4	6. 9	6. 3	0. 5

<sup>1</sup> The financing of the proposed hospital insurance program would also include a level contribution of 0.15 percent of covered payroll from Federal general revenues for the next 50 years (not shown in the table).

## PART I

### Financing the Present Program

In this part of the report the Council presents the results of its study of the financial status of the existing social security program and of the principles underlying the legislative provisions for social security financing. The financial implications of the Council's recommendations for program improvements as set forth in parts II and III of the report are presented in conjunction with those recommendations.

The financing provisions of present law are as follows: Employees pay contributions on their annual earnings up to a maximum of \$4,800. Each employer pays at the same rate as the employee on the first \$4,800 paid to each of his employees in the year. The self-employed pay at a rate approximately equal to  $1\frac{1}{2}$  times the rate paid by employees. Contribution rates are scheduled to increase from an employer and employee rate of  $3\frac{5}{8}$  percent each in 1965 to  $4\frac{1}{8}$  percent each in 1966 and to an ultimate rate of  $4\frac{5}{8}$  percent each in 1968. The contribution rates now scheduled are intended to provide enough income to meet all of the costs of the system, including administration, into the indefinite future.

Funds not needed for immediate benefit payments are invested in obligations of the United States Government and the interest earnings on these obligations are available to help pay the cost of the system. The scheduled contribution rates include an allocation to the separate disability insurance trust fund of one-half of one percent from the combined employer and employee contribution (three-eighths of one percent for the self-employed).



## 1. The Status of the Program and Allocation of Contribution Income

*The social security program as a whole is soundly financed, its funds are properly invested, and on the basis of actuarial estimates that the Council has reviewed and found sound and appropriate, provision has been made to meet all of the costs of the program both in the short run and over the long-range future. The contribution income should be reallocated between the two trust funds, however, so that the disability insurance part of the program, like the old-age and survivors insurance part of the program and the program as a whole, will be in close actuarial balance.*

As indicated in the latest Trustees' Report, the social security program as a whole is in actuarial balance both over the short run and for the long-range future. The review of the actuarial estimates conducted by the Council supported this conclusion of the Trustees. In the Council's opinion, based on actuarial estimates that the Council has reviewed and found sound and appropriate, the contribution rates in present law will supply income which, together with interest earnings on the funds, will be sufficient to meet all benefit costs and administrative expenses as they fall due.

While the old-age and survivors insurance part of the program and the program as a whole are in close actuarial balance, the disability insurance part of the program (which involves only a small proportion of the total cost of the system), when looked at separately, is underfinanced. It was recognized at the time of the last major disability amendments in 1960 that the income to the disability fund was likely to be about 0.06 percent of covered payroll short of what was needed for the long run. Experience since that time has indicated that disability benefit termination rates due to death and recovery of the beneficiary are lower than had been assumed in the earlier estimates, so that the expected deficit is now about 0.14 percent of covered payroll. To correct this situation, the Council endorses the recommendation of the Board of Trustees that there be a small reallocation of contribution income—the Council would favor 0.15 percent of covered payroll for present law—from the old-age and survivors insurance trust fund to the disability insurance trust fund.<sup>1</sup> This could be done without any increase in the

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<sup>1</sup> Under the Council's recommendations discussed in Part III, the reallocation should be 0.25 percent of covered payroll rather than 0.15 percent.

over-all contribution rates now scheduled for the program and would put the disability insurance part of the program in close actuarial balance, while also leaving the old-age and survivors insurance part and the program as a whole in close balance.

In arriving at the conclusion that the system as a whole is in actuarial balance, the Council examined not only the results of the estimates but also the techniques used and the assumptions on which the estimates are based. It found that the techniques used in preparing the estimates of the cost of the program are in accordance with sound actuarial practice and that the assumptions on which these estimates are based are appropriate. The estimates take full and proper account of the various economic and demographic factors affecting the future cost of the program.<sup>2</sup> The Council favors the continuance of present practice under which estimating techniques and the assumptions underlying the estimates and the contribution schedule are re-examined and adjusted in the light of developing experience.

The Council believes that it is proper for a national system of compulsory social insurance to use what is known as an "open-group" technique in preparing actuarial cost estimates—that is, to take into account not only present assets, future benefits for present beneficiaries, and future contributions and benefits with respect to workers now covered, but also the contributions and benefits to be paid with respect to workers to be covered in the future as well. The Council is in agreement with the previous groups that have studied the financing of the program that it is unnecessary and would be unwise to keep on hand a huge accumulation of funds sufficient, without regard to income from new entrants, to pay all future benefits to past and present contributors. A compulsory social insurance program is correctly considered soundly financed if, on the basis of actuarial estimates, current assets plus future income are expected to be sufficient to cover all the obligations of the program; the present system meets this test. The claim sometimes made that the system

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<sup>2</sup> Since over the long-range future the cost of the program will be affected by many factors that do not lend themselves to precise measurement, assumptions regarding them may differ widely and yet be reasonable. For this reason, high-cost and low-cost assumptions are made for the various factors affecting the long-range cost of the program. Intermediate-cost estimates are then derived by averaging the high-cost estimates and the low-cost estimates. The Council believes that these intermediate-cost estimates provide a reasonable basis for gauging the long-range cost implications of present benefit provisions and proposals for changes.

is financially unsound, with an unfunded liability of some \$300 billion, grows out of a false analogy with private insurance, which because of its voluntary character cannot count on income from new entrants to meet a part of the future obligations for the present covered group.

It is important to note that the long-range cost estimates prepared for the program are based on the assumption that earnings will remain at a given level (at the 1963 level under the estimates shown in this report). If average earnings continue to rise in the future, as there is reason to expect they will, then, assuming no change in other cost factors, the income of the program relative to outgo will be considerably higher than the estimates show.<sup>3</sup> The Council believes that making the estimates on a level-wage assumption allows for a desirable margin of safety and recommends that the practice be continued in making the long-range estimates. If the assumptions which underlie the intermediate or low-cost estimates are borne out by experience, then the use of level wages allows for benefit increases if wages rise without any increase in the contribution rates. If experience comes close to the high-cost assumptions, then the use of the level-wage assumption will result, if wages rise, in an offset to the cost consequences of the unfavorable experience and still allow for some upward adjustment in benefits without any increase in the contribution rates.

The Council suggests only one significant change in the assumptions underlying the long-range estimates. In the past an attempt has been made to present cost estimates into perpetuity. Specifically, it has been assumed for purposes of the estimates that trends for the factors affecting the cost of the program will level off at some point in the distant future (about 85 to 90 years) and continue at that level indefinitely. The Council believes that it serves no useful purpose to present estimates as if they had validity in perpetuity. A period of 75 years would span the lifetime of virtually all covered persons living on the valuation date and is as long a period as can

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<sup>3</sup> The reason for this effect of rising earnings is that benefits based on low earnings are a higher percentage of the worker's average monthly wage than are benefits based on higher earnings, and therefore, as earnings go up, benefits as a percentage of earnings go down. Contributions, on the other hand, are the same percentage of covered earnings at all levels. As earnings go up, then, the benefit outgo as a percentage of covered earnings decreases while the contribution income as a percentage of covered earnings stays the same.

be expected to have a realistic basis for estimating purposes. When costs are reassessed at frequent intervals, as has always been the practice, 75-year projections allow sufficient time to adjust to new and changing experience as it emerges. The long-range cost estimates shown in this report, therefore, are developed for a period of 75 years and it is our recommendation that long-range estimates in the future also be made on this assumption. The effect of this changed procedure is to make the estimated level-cost of the present program about 3 percent lower (about 0.25 percent of payroll) than when using the earlier procedure. At the same time the Council believes that the financing should be such that the actuarial status of the program will be reasonably close to an exact balance according to the intermediate-cost estimates.<sup>4</sup>

The Council has also examined the practices followed with respect to investment of the funds of the program. From the inception of the program in 1937, the investment of trust fund assets has been restricted by law to interest-bearing obligations of the United States or obligations guaranteed as to principal and interest by the United States. The investments can be either in special obligations issued exclusively for purchase by the trust funds or in publicly available obligations of the Federal Government. Under the present provisions of the Social Security Act relating to the investments of the trust funds, the special obligations issued exclusively to the trust funds bear interest rates equal to the average market yield at the end of the preceding month on all interest-bearing marketable obligations of the United States not due or callable for 4 or more years after that date. This market-yield formula, based on the recommendations of the Advisory Council on Social Security Financing appointed in 1957, has served as a model for determining interest rates on special obligations issued to certain other Federal trust funds. This Council believes that the present procedures for investing the trust funds and for setting the interest rates on the special obligations are satisfactory.

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<sup>4</sup> Traditionally the social security program has been considered in actuarial balance when, on the basis of the long-range intermediate-cost estimates projected into perpetuity, the actuarial insufficiency was not greater than 0.30 percent of payroll for the program as a whole. The Council believes that a closer balance would be desirable when the long-range cost estimates are projected over a 75-year period.



## 2. Adjustment in the Contribution Rate Schedule in the Short Range

*The contribution rates now scheduled in the law should be adjusted to avoid the rapid increase in trust fund assets that will otherwise begin with the rate increases scheduled for 1966 and 1968.*

The 1956 legislation establishing the social security advisory councils scheduled them so that each would make its report 1 year before the date when an increase in the social security contribution rates was due to go into effect, and one of the primary duties of the councils, as specified in the law, is to make recommendations with respect to the social security contribution schedule. Thus the Council recognizes a special obligation, without regard to other changes it is recommending, to report its findings and make recommendations regarding the social security contribution rates designed to support the existing program.

The benefit outgo of the program will increase for many years, mainly because of the increasing number of people eligible for benefits at age 62 or over. This increasing cost is to be met under the present law by raising the rates to  $4\frac{1}{8}$  percent each for employees and employers and to 6.2 percent for the self-employed in 1966, and finally to  $4\frac{5}{8}$  percent each for employees and employers and 6.9 percent for the self-employed in 1968. The question to which the Council is here addressing itself is whether changes should be made in these scheduled rate increases.

On the basis of the actuarial cost estimates the Council has examined, it is clear that some increase in income to the program over what the  $3\frac{5}{8}$  percent tax rate now in effect would produce will be needed in 1966. The Council finds, however, that the increase to  $4\frac{1}{8}$  percent each for employers and employees now scheduled for 1966 and 1967 is higher than it believes is desirable for several years.

The Council is recommending an increase in the contribution and benefit base in order to maintain the wage-related character of the benefits, to restore a broader financial base for the program, and to apportion the cost of the program appropriately between high-paid and low-paid workers. If the increase in the base is adopted in accordance with the Council's recommendation, the increase needed in 1966 in the income of the program will be provided thereby. If the base is not increased, and if all other provisions remain unchanged,

the Council would propose the contribution rate be increased in 1966 to 3.9 percent. This rate would produce a slight excess of income over outgo for about 2 years. In the Council's opinion it is highly desirable that the income to the funds exceed outgo year by year. As has been evidenced in several recent years, if this is not the situation, there is danger of public misunderstanding of the financial condition of the program. On the other hand, as nearly as can now be determined, it would seem to be desirable from the standpoint of the general economy to avoid the deflationary effect of large trust fund accumulations.

In the absence of any other changes in the law the Council would also propose revisions in the rates scheduled for 1968 and later years. The imposition of the  $4\frac{5}{8}$  percent rate as scheduled in 1968 would build very large trust fund accumulations—as much as \$4 billion a year—and would also involve the possibility of imposing rates higher than will ever be needed to pay for the benefits provided under present law. The rate of  $4\frac{5}{8}$  percent in 1968 is designed to meet long-range costs falling about halfway between the high- and the low-cost estimates. If the actual experience is close to the low-cost estimates, for example, a contribution rate of  $4\frac{1}{8}$  percent in 1968, rather than  $4\frac{5}{8}$  percent, would cover the cost of the present program for 75 years.

This Council agrees with the last Advisory Council in the view that once the social security contribution rates actually in effect are high enough to cover the long-range cost of the program as shown by a reasonable minimum estimate, then decisions on whether scheduled rate increases are allowed to go into effect should be guided largely by conditions expected in the 15- or 20-year period immediately ahead. The Council recommends that if the present program continues unchanged in other respects the proposed 3.9 percent rate for 1966 be continued through 1968 and the rate scheduled for 1969–1971 be 4.1 percent of payroll. This figure is close to the 75-year level cost of the program under the low-cost estimates. The recommendations for rates to be included in the law for years after 1971—but to be allowed to go into effect only if developing conditions indicate that they will be necessary—are given on page 21.

The Council believes that reducing the scheduled rates as suggested for the 6 years after 1965 would not threaten the financial soundness of the program. Since continuing income from social security contributions is assured, the only fund balances required are those needed to meet temporary excesses of outgo over income

due to relatively high benefit costs or low social security tax revenue in a particular period. In the opinion of the Council, fund balances high enough to maintain the solvency of the program in the face of recession conditions as severe as, say, those referred to in the annual report of the Board of Trustees—that is, conditions that would prevail if there were a drop of 5 million in the number of people with covered earnings in a year—would be adequate to provide protection against any contingency that might reasonably be expected, and the trust fund balances resulting from the Council's recommended rate schedule would be sufficient to do this.<sup>5</sup>

Holding the trust funds to reasonable contingency levels, instead of allowing them to increase as they would under the present tax schedule, will of course mean a loss of interest income to the program. However, despite the very substantial funds that would be built up under the present schedule, the interest earned on these funds is expected to supply only about 10 to 15 percent of the income of the program over the long-range future. Thus the role of the trust funds as interest-earning reserves is not very great even under the present schedule; the funds are even now to be thought of largely as a reserve to meet unexpected contingencies rather than as funds for the purpose of earning interest. Moreover, if the system is improved as earnings levels rise in the future, as seems likely to be the case, interest earnings on a fund of any given size will meet a decreasing proportion of benefit costs. It may therefore prove to be unwise to count on interest earnings meeting even as large a part of benefit costs in the distant future as is now contemplated.

The Council does not consider the use of interest in the financing of the program to be a major issue. A reasonable contingency fund will result in interest earnings which will supply 4 to 5 percent of benefit costs. Even under the present contribution schedule interest earnings may not exceed 10 percent of costs. The Council believes that, on balance, any advantage of imposing rates that will build up large interest-earning trust funds is outweighed by the disadvantages.

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<sup>5</sup> The Trustees follow a practice of including in their annual report an illustration of the effect that a sharp reduction in the level of economic activity and an increase in the rate of unemployment would have on the operations of the program. In the opinion of the Council this is a desirable practice and should be continued.

### 3. The Contribution Rates in the Long Range

*There should continue to be included in the law a schedule of contribution rates which, according to the intermediate-cost estimates, will be sufficient to support the program over the long-range future. However, decisions about putting future rate increases into effect, once the rates actually being charged are high enough to cover the long-range cost of the program as shown by a reasonable minimum estimate, should be guided largely by estimates of program costs over a 15- or 20-year period.*

Like the last Advisory Council, the present Council endorses the practice of including in the law a contribution schedule that, according to the intermediate-cost estimates, places the system in actuarial balance over the long-range future. As that Council pointed out, this procedure is needed to make people conscious of the long-range costs of the program and the costs of proposals to change the program. Accordingly, this Council is recommending that for the *present* program, if the contribution rates it recommends for 1966 and 1969 are put into effect (bringing the rates about to the level needed for the next 75 years under the low-cost estimates), further contribution rate increases nevertheless should be scheduled in the law for 1972 and 1975. The 1972 rate should reflect the estimated cost for the next 3 years on the basis of the long-range intermediate-cost estimate, while the 1975 rate should represent the level-cost for the succeeding 65 years. The employee (and employer) rate for 1972-74 should be 4.3 percent. A rate of 4.7 percent effective in 1975 would be sufficient to finance the present program under the intermediate-cost estimate throughout the period covered by the estimate.

While the Council believes that the rates for 1972 and 1975 should be scheduled in the law in order to assure public appreciation of the approximate long-range cost of the program, decisions on whether these rates should be put into effect as scheduled, since they are higher than would be needed if the low-cost estimates are borne out by experience, should be made in the light of circumstances prevailing just before the proposed effective dates. These decisions should be made largely in the light of conditions that are expected to exist over the 15 or 20 years following the proposed effective dates.

If there are no other changes in the program, and if the contribution and benefit base is not increased, the Council would recommend that the 4.125 percent rate scheduled for employees and employers in 1966 be reduced to 3.9 percent, that the rate be held at



this level through 1968, and that the rate for 1969 be set at 4.1 percent. Rates of 4.3 percent in 1972 and 4.7 percent in 1975 should be scheduled in the law, subject to future review. If the Council's recommendations for improvements in the program are adopted, the rates would of course need to be higher than those shown here; the cost of the changes and the recommended rates for the cash-benefit program as it would be improved are shown on pages 84 and 85. The financing of hospital insurance is discussed on pages 45-52.

#### **4. The Contribution and Benefit Base**

*The maximum amount of annual earnings that is taxable and creditable toward benefits needs to be substantially increased in order to maintain the wage-related character of the benefits, to restore a broader financial base for the program and to apportion the cost of the system among low-paid and higher-paid workers in the most desirable way.*

The Council recommends that the maximum amount of annual earnings that is taxable and creditable toward benefits—the contribution and benefit base—be increased to at least \$6,000 effective in 1966 and \$7,200 effective in 1968. These increases are needed in order to maintain the wage-related character of the benefits, to restore a broader financial base for the program, thus keeping the contribution rates lower than they would otherwise have to be, and to apportion the cost of the system appropriately.

As is discussed in Part III, failure to keep the contribution and benefit base up to date has serious effects on the benefit protection provided as more and more workers have earnings above the base and their benefits are related to a smaller and smaller part of their earnings. In addition, unless the contribution and benefit base is increased as earnings rise, the foundation of the financing of the program—the proportion of the Nation's payrolls which is subject to social security contributions—is weakened.

Moreover, if benefits were raised without increasing the contribution and benefit base, the increases in the contribution rates would have to be higher than they would have to be if the base were raised, and lower-paid workers as well as those earning at or above the maximum would have to pay these higher rates. It is much more desirable to meet the cost of increased protection for workers at average or higher earnings levels by increasing the amount of earn-

ings on which those workers contribute than by increasing the contribution rates that all workers pay.<sup>6</sup>

The contribution and benefit base is now substantially out of date because of large advances in the general wage level. When the program was enacted in 1935, the \$3,000 base provided would have covered 95 percent of total earnings in covered work in that year, and would have covered the full earnings of 98 percent of all workers and of 97 percent of regularly employed men.<sup>7</sup> When the base was raised to \$3,600 in 1950, the \$3,600 base would have covered 86 percent of earnings in covered work and all of the earnings of 81 percent of all workers and of 62 percent of regularly employed men. In 1965, with the \$4,800 base, only about 72 percent of earnings in covered employment will be taxed to support the program and only 66 percent of all workers and 36 percent of regularly employed men will have all their earnings covered.

The concept embodied in the original \$3,000 base was that practically all of the Nation's covered payrolls should be subject to contributions for the support of the program and that all but the most highly paid workers should have all their earnings counted toward benefits. The Council does not think it would be practicable to attempt at this time to restore all of the ground that has been lost over the years. A base of \$14,500 would be needed now to cover 95 percent of total earnings in covered work, as was contemplated in 1935. Nor does the Council believe it necessary that the original situation with respect to the proportion of total earnings covered under the program be fully restored in order to carry out the general principles of the original Act.

The Council believes that a return to the relationship that ex-

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<sup>6</sup> If the base were restored to a figure comparable to the \$3,000 figure provided in the 1935 legislation, the ultimate contribution rate for employee and employer under the present program could be reduced for each by about 0.5 percent. If it were raised to a figure comparable to \$3,600 at the time that figure was written into the law in 1950, the ultimate rate for the present program could be reduced by about 0.3 percent each.

<sup>7</sup> Measures of the effectiveness of the contribution and benefit base that have been used from time to time include the proportion of earnings taxed for the support of the program, the proportion of all workers who have all of their earnings credited toward benefits, and the proportion of regularly employed men (generally the primary earners) who have all of their earnings credited toward benefits. The first is probably most important for financing and the third for an evaluation of the adequacy of the benefit structure.

isted in 1950, the first year the Congress increased the contribution and benefit base, is a practical goal. The Council recognizes, however, that it may not be practical to move to this level in one step, and is recommending, therefore, that the base be increased at least to \$6,000 for 1966 and 1967 and to \$7,200 in 1968. A contribution and benefit base of \$7,200, if effective in 1968, would, it is estimated, tax about 80 percent of total earnings in covered work and would result in 82 percent of all workers, and 63 percent of regularly employed men, having all their earnings counted toward benefits.<sup>8</sup> The result would be comparable to the 1950 situation in respect to the last two measures and somewhat short in respect to the first measure.

The members of the Council are agreed on the changes here recommended as the minimum desirable. Some members, however, think that the proposed amounts for the contribution and benefit base are not high enough and would recommend that they be substantially greater, rising in the second step to nine or ten thousand dollars. This group believes that it is important to go beyond restoring the 1950 situation and move toward the situation contemplated under the original Social Security Act.

## 5. The Contribution Rate for the Self-Employed

*Increases in the social security contribution rate for the self-employed beyond the present rate should be put into effect gradually, and only to the extent that the ultimate rate will be no more than 1 percent of earnings greater than the rate paid by employees.*

Since 1951, when self-employed people were first brought into the social security program, they have paid social security contributions at a rate  $1\frac{1}{2}$  times the rate paid by employees. The policy of imposing the contribution at this  $1\frac{1}{2}$ -times rate balances two opposing considerations. On the one hand, to the extent that the self-employed person does not contribute at rates as high as the combined employee-employer rate, there is a financial disadvantage to the program in covering him, as compared to covering an employee. On the other hand, looked at from the standpoint of an individual con-

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<sup>8</sup> If earnings levels continue to increase at about the same rate as they increased over the last 5 years, average earnings in covered work will increase about 4 percent per year during the period January 1964-January 1968.

tributing toward his own protection, some self-employed people will be “overcharged” when paying over a lifetime at the ultimate rate now scheduled.

Although the policy of setting the self-employed rate at  $1\frac{1}{2}$  times the employee rate seemed a reasonable compromise at the time it was adopted, the Council believes that, as the rates have gone up, the substantial difference between the employee rate and the self-employed rate has become difficult to justify. The contributions paid by self-employed people above the rates paid by employees are, like employers’ contributions to the program, used in large part to help provide protection for low-paid workers, workers with large families and workers who were already on in years when their jobs were first covered.<sup>9</sup> The Council believes that it is reasonable to use the contributions of an employer for general purposes, rather than for the benefit of the particular employees on whose earnings the contributions are based, as long as the employee can in general be said to get his own money’s worth. On the other hand, the Council does not believe that self-employed workers should as a rule be charged rates for their own coverage beyond the rates needed to pay for the protection they are provided by the program in order to help meet the cost of the protection provided to others.

The Council recommends, therefore, that, except for the financing of new types of benefits such as hospital insurance, increases in the social security tax rate for the self-employed beyond the rate now being charged be put into effect only to the extent that the self-employed will pay no more than 1 percent of covered earnings above the rate paid by employees at the time the ultimate rate goes into effect.<sup>10</sup> With self-employed contributors paying, ultimately, 1 percent of earnings more than employees, their contribution rate would reflect the fact that to a degree they are in the same position as an employer, that is, that they are their own employers. At the same

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<sup>9</sup> Actually, a part of the employers’ contributions (about 15 to 20 percent)—and of that part of the self-employed person’s contribution that exceeds the employee contribution—is used to meet the cost of benefits for the long-term better-paid worker, since the contributions of this group do not quite cover the cost of their own benefits.

<sup>10</sup> In Part II the Council also recommends that the contribution rate for the self-employed under the hospital insurance proposal be only a little above that for employees—0.5 percent of earnings for the self-employed and 0.4 percent for employees.



time, they would not be overcharged when paying for a full working lifetime at the ultimate contribution rate.<sup>11</sup>

## 6. Maintaining the Integrity of the Trust Funds

*To maintain the integrity of the trust funds, the reimbursement of the trust funds for the cost of paying social security benefits based on military service for which no contributions were paid should begin without further delay and the Board of Trustees should be given specific responsibility for reviewing those administrative charges against the trust funds which are based on estimates rather than on actual costs.*

The last Advisory Council called the management of the social security trust funds “the greatest financial trusteeship in history.” This Council agrees, and it has reviewed the management of the funds to be sure that their integrity is maintained. As a result of its study, the Council has concluded that, in general, the trust funds are managed with due regard for their nature as funds held in trust for the contributors and beneficiaries of the program. The Council does, however, want to call attention to two respects in which improvement should be made.

Military service after 1956 is covered in the same way as is all other work in covered employment, and social security employee and employer contributions with respect to military service are paid into the trust fund by the Federal Government just as are the contributions of private employers and employees. For service prior to 1957 (and after September 16, 1940), however, noncontributory wage credits were provided, and, in addition, benefits were provided for the survivors of certain World War II veterans who died within 3 years after discharge. Social security contributions were not paid with respect to those special wage credits and benefits.

The social security system has been reimbursed from the general fund of the Treasury for the cost resulting from the special benefits paid through August 1950. The authorization for such reim-

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<sup>11</sup> The contribution rate paid by the self-employed person in excess of that paid by the employee would roughly cover the difference between the value of the contributions paid over a lifetime at the ultimate rate by employees earning at the maximum covered amount and the value of the old-age, survivors, and disability insurance protection received by a person covered by the system over a whole working lifetime and earning at the maximum covered amount.

bursement was repealed by the 1950 amendments. In 1956 the law authorized reimbursement of the system for the cost resulting from the payment of the special benefits from September 1950 on and for the cost resulting from the noncontributory wage credits for military service. Although the 1956 legislation authorized such reimbursement beginning in fiscal year 1960, no reimbursement has yet been made.

The Council views the reimbursement owed the trust funds by the United States Government for benefits arising from noncontributory military service credits in the same light as social security contributions payable by employers generally, and therefore urges that the Government as the employer of the servicemen discharge its obligations to the trust funds just as it requires employers generally to meet their obligations. The Council also believes that this reimbursement should begin without delay.

The Council notes also that, although the Board of Trustees is directed to review the general policies followed in managing the trust funds, there is no specific requirement in the law that it review the way in which administrative costs incurred outside of the Social Security Administration—for example, by the Internal Revenue Service in the collection of social security taxes and by the Treasury Disbursing Office in issuing benefit checks—are arrived at and charged to the funds, nor has any other agency of Government been assigned this responsibility. Many of these costs, unlike those of the Social Security Administration, are charged to the trust funds on the basis of estimates rather than of actual cost. The Council believes that there should be a review of such charges and that the Board of Trustees should do it.

The Council does not believe that the Board of Trustees should be required by law to meet every 6 months, as it now is. The Council has been informed that important financial policy issues suitable for consideration by the Trustees do not come up every 6 months. The Council recommends that the law be changed so that the Trustees would not be required to meet more than once every year.



## PART II

# Hospital Insurance for Older People and the Disabled

In its examination of the adequacy of social security protection for the aged and the totally disabled the Council came to the conclusion that cash benefits alone are not enough. Monthly cash benefits, if adequate, can meet regularly recurring expenses such as those for food, clothing and shelter, but monthly cash benefits are not a practical way to meet the problem that the aged and disabled face in the high and unpredictable costs of health care, costs that may run into the thousands of dollars for some and amount to very little for others. Security in old age and during disability requires the combination of a cash benefit and insurance against a substantial part of the costs of expensive illness.

### The Council's Position in Brief

Essentially the problem is this: Incomes decrease sharply upon old-age or disability retirement, but the incidence of costly illness increases. During their working years, when ill health is less frequent, employed workers can generally meet costs of current care for themselves and their families—directly or through insurance—out of their current employment income, often through an employee-benefit plan and with the help of their employers. The situation of the aged and disabled is quite different. Not only do they have the higher health costs associated with old age and disability but their incomes are greatly reduced because they are no longer working.

The solution, the Council believes,<sup>12</sup> is to apply the method of contributory social insurance, which underlies the present social security program, so that people can contribute from earnings during

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<sup>12</sup> One member of the Council does not share in this belief; his reasons are given in Appendix A.



their working years and have protection against the costs of hospital and related services after age 65 and during disability without having to pay contributions at the time when income is generally curtailed. Contributory social insurance, the Council believes, offers the only practical way of making sure that almost everyone will have hospital protection in old age and during periods of long-term total disability.

It is not proposed, however, that social insurance cover all the costs of illness during old age and long-term total disability. The American approach to income security has traditionally involved a partnership of private effort and governmental measures. For example, old-age, survivors, and disability insurance is supplemented by employer and trade union plans, private insurance, and individual savings and investments. All contribute to the common goal of personal and economic independence. Backstopping this combination of measures for individual self-support are the Federal-State public assistance programs.

We believe this same pluralistic approach can be used effectively in meeting the costs of illness during old age and disability. With social security meeting just about all of the costs of hospitalization, which, on the average, represent at least half the costs associated with the more expensive illnesses, the person who is old or totally disabled will be in a much better position than he is today to meet, on his own and through private insurance, the costs of physician services, drugs and the other elements of complete medical care. Also, with social security providing basic hospital protection, it should be practicable to improve the Federal-State public assistance programs to make them serve more effectively in meeting the health costs for older and disabled people whose needs are not met in other ways.

## **The Need for Protection Against the Cost of Hospitalization**

Older people and disabled people have a special need for protection against the cost of hospitalization and related services—they need more care and they have less money to pay for it.

As one would expect, health care expenditures on the average are much greater for people past 65 than for younger people. Total health care expenditures for the aged, in fact, are twice as high, and, in the case of expenditures for hospitalization, the ratio is about  $2\frac{3}{4}$  to 1. Older persons go to the hospital more often and have to stay much longer than those under 65.

The cost of hospitalization affects practically all older people. Of every ten persons who reach age 65, nine will be hospitalized at least once during their remaining years and most will be hospitalized two or more times. In the case of aged couples, the chances are about even that the husband and wife will each be hospitalized two or more times.

Not only is hospitalization a virtually universal occurrence among older people but there is a high correlation between hospitalization and large total medical expenses. Older people who are hospitalized in a given year are the ones who have the big expenses. While medical care costs for all aged couples averaged about \$442 in 1962, the medical expenses of aged couples with one or both members hospitalized averaged \$1,220; for nonmarried elderly people, average medical expenses for the year were \$270, whereas for those who were hospitalized, the average was \$1,038.<sup>13</sup> Both the averages and the differentials would be even higher now.

Hospital expenses are a serious problem for the totally disabled too. Like the aged, they too are hospitalized frequently and in many cases their hospital stays are long. According to a survey of workers found disabled under the social security disability provisions<sup>14</sup> (conducted by the Social Security Administration in 1960), about one out of five disability beneficiaries under social security received care in short-stay hospitals in the survey year; and, excluding hospitalizations in long-term institutions, half of those hospitalized were in the hospital for 3 weeks or more.<sup>15</sup>

The problem now faced by older people and the disabled is going to become even more serious because health costs will undoubtedly continue to rise, probably at a rate considerably in excess of any increase in other prices. From 1953 to 1963 the percentage rise in the consumer price index for medical care items was nearly three times the increase in the over-all index; and the price index for medical care items increased more than that for any other

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<sup>13</sup> Medical data obtained in the 1963 Survey of the Aged, a study conducted by the Social Security Administration, with the Bureau of the Census carrying out the field collection and the tabulation of the data.

<sup>14</sup> At the time the survey was conducted, the worker had to be aged 50 or over to be eligible for disability insurance benefits. Since the time of the survey, the age requirement for disability beneficiaries has been eliminated, but beneficiaries aged 50 and over still represent about three-fourths of all disability beneficiaries. Thus, the data for this age group are representative of the major part of the disability beneficiary population.

<sup>15</sup> Almost 90 percent of the disability beneficiaries in the survey had been totally disabled at least 6 months before the beginning of the survey year and half had been disabled 3 years or more.

major price-index component. Among the items that compose the medical care segment of the index, hospitalization costs have risen at a much faster rate than other components—hospital daily service charges rose twice as much as medical care costs generally.

Health care has become so expensive that virtually no one, including the relatively well-off person at the height of his earning power, can afford to pay the cost of major, prolonged illness unless he has effective insurance. And the great majority of the aged and disabled are neither well-off nor have adequate health insurance. Older people have, on the average, only one-half as much income as younger people living in family groups of the same size.<sup>16</sup> About half of the aged social security beneficiaries have practically nothing (less than \$12.50 a month per person) in continuing retirement income other than their social security benefits; and for all but about one-fifth of the aged beneficiaries, benefits were the major source of continuing retirement income.<sup>17</sup> (Only 15 percent of the aged, for example, have any income from private pension plans and even for this 15 percent the amount from social security is generally larger than the private pension.)

Totally disabled people also have comparatively low incomes, although they more often depend in part upon the earnings of a spouse.<sup>18</sup> Many older people and people with long-term total dis-

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<sup>16</sup> Bureau of the Census Current Population Survey income data for 1960 (the most recent available by age and size of family) show median annual income as \$2,530 for aged two-person families and as \$5,314 for younger two-person families; for individuals living alone the data for 1963 show median incomes of \$1,277 for the aged and of \$2,881 for the younger persons. The Social Security Administration's 1963 Survey of the Aged shows median income for all aged couples as \$2,875 in 1962; no data are available for younger couples as of that date, but Census data for 1962 and 1963 for aged and younger families of all sizes indicate that the ratios between incomes of aged and young families of comparable size have not changed significantly.

<sup>17</sup> Retirement income as used here means all income other than earnings, assistance payments (public and private) and money income from a relative living in the same household. Data shown are derived from the Social Security Administration's 1963 Survey of the Aged.

<sup>18</sup> According to the Social Security Administration's 1960 survey of disabled workers, one-half of the married disability beneficiary units (family units composed of disabled workers and spouses and their children, if any) had income, not counting social security benefits, of less than \$170 per month. The bulk of the income for most of these family units came from the earnings of a working spouse. One-half of the nonmarried disability beneficiaries had income, not counting social security benefits, of less than \$7 per month (there being no spouse present to work).



abilities must therefore turn to their children and other relatives and to public agencies for aid in meeting the costs of illnesses that require hospitalization.

In the 1960's we have seen a large and growing proportion of those applying for public aid forced to do so only because they cannot meet their health costs. Today over one-third of public assistance expenditures for the aged are for health costs, and such costs have become the most important single reason older people apply for public assistance.

## The Role of Private Plans

The hospital insurance provisions we recommend would work in partnership with private plans and individual voluntary effort as social security now does in the field of cash benefits. With social security providing basic protection against the costs of hospital care and related services, and with improved cash benefits such as we recommend in Part III of this report, many people aged 65 and over or disabled who now cannot afford comprehensive private health insurance would be able to afford the less expensive supplementary protection against doctor bills and other health costs which, in combination with social security, would furnish comprehensive coverage. Employers also would find it more feasible to continue health protection for employees into retirement if, instead of having the whole job to do, they could build on the hospital insurance protection furnished under social security. These private measures would be built upon the hospital insurance base, just as the private life insurance and retirement pensions and annuities that many people have today are built upon the base of social security cash benefits.

On the other hand, it is unrealistic to expect private voluntary insurance alone to provide comprehensive protection for the great majority of elderly people and totally disabled people. To a large extent the problem of financing the cost of expensive illness among people at the younger ages, who are largely dependent on current earnings, is being met by private insurance organizations, but private insurance cannot meet this problem for most of the aged at a price they can afford to pay. Despite years of creative effort and hard work by the voluntary insurance organizations, less than half of the totally disabled and only a little over half of the elderly have any kind of health insurance coverage and most of what they do have is quite limited. The absolute number of older people without any kind of protection at all is nearly as large as it was 5 years ago.



The basic difficulty in relying exclusively on private insurance, of course, has been that the costs of insurance are necessarily high because the aged and the disabled need so much in the way of health care that they cannot pay the costs of adequate insurance from low retirement incomes. Then too, unlike working people, who generally get group health insurance coverage through their place of employment, the disabled and the elderly can ordinarily obtain health insurance only on an individual or nongroup basis. The marketing and administrative costs associated with the individual handling that is characteristic of nongroup commercial health insurance make individual coverage about  $1\frac{1}{2}$  times as expensive, on the average, as group coverage offering the same benefits. Because of this consideration, together with the fact that hospital costs for the aged run about  $2\frac{3}{4}$  times as much as those for younger people, the protection provided to an aged person by an individually purchased commercial hospital insurance policy costs about four times as much as comparable protection furnished younger people on a group basis. And relatively few disabled and retired workers have the benefit of contributions made toward health insurance by employers.

As a result of these facts, most voluntary health insurance within reach of the pocketbooks of the aged and the disabled is inadequate in the amounts and types of service covered and in the duration of benefits. In 1962 (the most recent year for which data are available) only 10 to 15 percent of the total medical costs of the aged, for example, was paid for by insurance. Moreover, as hospital costs rise, those who have health insurance policies paying fixed dollar amounts toward hospital care will find that the amounts cover an increasingly smaller proportion of their hospital bills; those who have policies which provide service benefits rather than fixed dollar amounts will be faced with increased premiums.

In the case of Blue Cross, which ordinarily provides service benefits without dollar limits, pressures are heavy to apply experience rating more and more to the high-risk older population in order to be able to offer the young group rates that are more competitive with those for commercial insurance policies. These pressures will continue to apply in the future and the result will be additional increases in Blue Cross premiums for the aged as they are required to pay rates closer to the true value of their protection.

It is also true that most of the aged who now have some form of health insurance are those who are still working, those in good health, and those in the higher income group. To a very large extent those who can be sold voluntary protection have already been sold.

For all these reasons, in the absence of social insurance taking on a part of the job, the Council believes that in all probability the great majority of older people and disabled people will, for the foreseeable future, continue to be without adequate protection against health care costs.

The Council believes that the extension of social insurance to the costs of hospitalization for the elderly and the disabled will make it possible for the private plans to perform a valuable complementary role. Since hospital insurance protection will be provided without further contributions during old age and disability, more of the retirement dollar will become available for buying current protection covering other parts of the medical bill, and, as indicated above, employers will find it more feasible to carry over health protection for their retired personnel.<sup>19</sup>

## The Role of Public Assistance

There will be some disabled and elderly people who are without the means to add other protection to their basic hospital insurance or who have special needs such as the need for long-continuing custodial care. Public assistance programs will, therefore, have an important continuing role in meeting the total problem. Consequently, the Council favors the improvement of the program for medical assistance for the aged (MAA) and the medical care provisions of old-age assistance and aid to the permanently and totally disabled to provide more effectively for remaining needs after the proposed social insurance program goes into effect. The enactment of hospital insurance provisions for the aged and disabled will save the States some two-fifths of their present medical expenditures for older people and place them in a financial position to improve

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<sup>19</sup> In connection with the continuing role of private insurance in providing health insurance protection for the elderly, the Council would like to call attention to the recommendations of the National Committee on Health Care of the Aged. This was an ad hoc committee, with expert membership, which Senator Jacob K. Javits initiated and which served under the chairmanship of Arthur S. Flemming, former Secretary of Health, Education, and Welfare. In addition to proposing hospital insurance under social security, the National Committee recommended provisions designed to encourage the setting up of Federally authorized pools of insurers to offer supplementation to the social insurance plan. The Council has not taken any position on the subject of those recommended provisions because it is not within the scope of the Council's assignment. The Council believes, however, that the suggestion is worth the careful consideration of the Congress.

their medical assistance programs. When the number of those who need help is reduced and when the remainder do not need help with most of the costs of hospital care, because of hospital insurance under social security and because of the spread of effective supplementary protection, the way will be open in many States for much needed improvements in medical assistance for the smaller numbers of people who still need help.

There is abundant evidence, however, that the Federal-State programs of public assistance, without a social insurance program to meet a large part of the cost, cannot do the job of filling the gaps left by private voluntary insurance. Many States either cannot—or, in the light of other financial priorities, will not—put up enough money to meet the need. Despite the fact that the Federal Government will pay, out of general revenues, from 50 percent to 80 percent of the cost of a State program to meet the health needs of the aged, only a few States have developed adequate programs for the very poor, and none has combined both comprehensive care and liberal enough tests of income and assets to meet the health needs of more than a small proportion of the retired aged in the State. Some have no medical-assistance-for-the-aged program at all.

Under a grant-in-aid system the wealthier States are the ones most likely to establish the better programs and most likely to get the major share of Federal funds. Furthermore, States vary in their willingness to apply their resources to a given purpose. As a result, an approach that depends on *State* initiative cannot reasonably be expected to lead to an adequate *nationwide* program. In October 1964, 68 percent of Federal MAA funds went to five of the wealthier States with only 31 percent of the country's aged.

For reasons explained in the introduction to this report, the Council does not, in any event, favor placing a main reliance on assistance in dealing with a problem which is faced by practically all the aged and the disabled. Even an adequate assistance program would have grave drawbacks for the recipient and for our society as a whole when compared with the method of social insurance. The Council believes that to the extent practicable the objective should be to prevent dependency rather than alleviate it after it has occurred.

Yet in some circumstances assistance will continue to be necessary. This is why the Council recommends that the Federal Government give continuing support to improvements in the medical provisions of assistance programs so that all the aged and all the disabled may have their full medical needs met through a combination of social security, private protection and savings, and, as a last



resort, for the unusual need and circumstance, through an improved and generally available assistance plan.

## Basic Elements of the Recommended Plan

The Council recommends that the core of protection be coverage of the costs of hospital care, subject to a small deductible. Coverage of three additional types of services, which can frequently take the place of inpatient hospital care, is also recommended: (1) extended care, following a hospital stay, in a hospital-operated or hospital-affiliated facility capable of providing high quality convalescent and rehabilitative services; (2) organized home nursing services which are medically supervised and are provided by organizations staffed and equipped to offer coordinated services sufficient so that an individual who is confined at home, but not in need of round-the-clock services, could receive substantially the full array of nursing services and therapeutic services (not including those of a physician) needed to care for him at home; and (3) subject to a small deductible, hospital outpatient diagnostic services covering the full use of the hospital's facilities and personnel but not covering the diagnostic services of the patient's personal physician.

A major principle that guided the Council in developing its recommendations is that health services should be tailored to the health needs of the patient. Provision for the four types of benefits—hospital care, extended care following the care given in the hospital, organized home nursing care, and hospital outpatient diagnostic services—would enable the older or disabled person, together with those who participate in planning for his care, to have available the kinds of services, and a level of care, most appropriate to his individual need. Particularly for the aged, the next step in the care of a person who has been hospitalized for a serious illness may be a period of medically supervised treatment in an extended-care facility rather than continued occupancy of a high-cost bed normally used by acutely ill hospital patients. The benefit structure should cover a continuum of institutional and home nursing services and should provide an appropriate level of care for individuals who require convalescent care of somewhat lesser degree of intensity than that provided for hospital inpatients.

The coverage of important alternatives to hospitalization would help subordinate financial to medical considerations in decisions shared in by the doctor, patient and institution on whether inpatient hospital care or another form of care would be best for the patient.



The recommended benefits would give financial support to the provision of institutional and noninstitutional services at the most appropriate level of intensity for patients who require care of extended duration. Covering each of the stages of required care is conducive to careful planning of the long-range treatment of those suffering serious illnesses.

In the course of formulating the proposed hospital insurance provisions for the aged and disabled, the Council was mindful of the increasing interest that the community as a whole has demonstrated in seeing to it that high quality health services are provided and that full value is received for the health dollar. Reflecting this community interest, many State and local hospital planning groups, private health cost prepayment organizations, and others have called attention to the effects of inadequate planning of facilities, excess capacity, inefficient operation, and unneeded services, any of which, whenever they occur, can result in an increase in health costs far beyond that attributable to medical and scientific achievements. The work of these groups shows that there is real promise for an improvement in the quality of care and at the same time improvement in the efficiency with which the services are provided.

The Council believes this matter to be of such widespread concern that it recommends the creation of a commission, its members to be appointed by the President, composed of experts in the fields of health care and hospital planning, of representatives of groups and agencies purchasing health care on a large scale, and of the general public, for the purpose of enhancing the effectiveness of our hospitals throughout the country in the provision of high-quality health care. The recommendations of such a commission would be of benefit primarily to the population as a whole but would, of course, also be of long-run importance to the hospital insurance program for elderly and disabled people.

## **1. Inpatient Hospital Benefits**

*The proposed hospital insurance for people age 65 or over and the disabled should cover a number of days sufficient to meet the cost of inpatient hospital services for the full stay of almost all beneficiaries.*

The Council believes that the number of days for which inpatient hospital benefits are paid should be enough to cover the full hospital stays required in nearly all cases. Sixty days of coverage

for each spell of illness would accomplish this purpose. Sixty days would cover the full stay of all but about 3 to 5 percent of the stays of older persons. Moreover, it is quite possible that with coverage in extended-care facilities, such as we recommend, many of those who would otherwise stay in acute general hospitals for over 60 days could be transferred to extended-care facilities.

The Council holds the view, which is shared by many experts on hospital insurance, that the availability of hospital coverage for a substantially longer period may, especially among the aged, result in excessively long hospital stays and therefore unnecessary cost to the program. We therefore believe that it is desirable to place a limit on the number of covered days in the acute general hospital and, at the same time, provide for extended care in less expensive facilities.

The Council believes that the proposed hospital insurance should not include any provision under which beneficiaries would choose among various combinations of benefits of the same actuarial value but with a varying number of days and higher and lower deductibles. The Council sees little gain in such a choice and, on the contrary, believes that for most beneficiaries the need to make a choice would be confusing and upsetting and that widespread dissatisfaction could be expected among the large number who would later discover that they would have been better off with a different choice. Any attempt to meet this dissatisfaction by allowing people to change options would significantly increase the cost of the program for the whole group of contributors by giving an unfair advantage to those who could anticipate the need for a specific type of protection.

## **2. Outpatient Hospital Diagnostic Services**

*Payment under the program should be made for the costs of outpatient hospital diagnostic services furnished beneficiaries.*

Recent progress in science and medicine has resulted in the development of complex services and equipment for the more accurate and more timely diagnosis of disease. Because of the cost of the equipment and the need for specialized personnel to operate it, the hospital has increasingly become a diagnostic center which is used when expensive and complex tests are required. Providing for the payment of the cost of expensive outpatient hospital diagnostic services should help to encourage early diagnosis of disease by removing financial barriers to the use of such services. Payment

for outpatient hospital diagnostic services would also help to support the efficient provision of care by eliminating a financial incentive for hospital admissions to obtain diagnostic services.

### 3. Deductibles

*Hospitalized beneficiaries should pay a deductible equal to the cost of one-half day of care—\$20 at the program's beginning. In the case of beneficiaries who are provided outpatient diagnostic services, this deductible amount should be applied for each 30-day period during which diagnostic services are provided.*

The Council believes that beneficiaries who are hospitalized should be required to pay a small amount toward the cost of their hospital stay. Such a deductible amount might help to reduce unnecessary hospital admissions. On the other hand, we would not favor a deductible amount of substantial size since such a deductible might well deter many beneficiaries from seeking needed care. In the Council's judgment a deductible amount which is equal to about a half, or even three-fourths, of the national average cost per patient day of hospital care would not be so large as to represent a significant impediment to needed care. Such a deductible amount—\$20 to start—would, moreover, make it possible to provide, within the funds available to the proposed program, more extensive protection against catastrophic health costs than would otherwise be possible.

Provision for a similar deductible amount in the outpatient diagnostic benefit would limit coverage to diagnostic procedures with a significant financial impact. It should also have the effect of excluding from the coverage of the program the type of routine laboratory and other diagnostic procedures that are customarily furnished in or through the physician's office.

### 4. Services in Extended-Care Facilities

*The cost of post-hospitalization extended-care services in facilities which provide high-quality rehabilitative and convalescent services should be covered so as to pay for a minimum number of days after hospitalization in all cases, with additional days of extended-care services being paid for if the patient has not used all of his inpatient hospital coverage.*

The services that would be covered would be those furnished to patients in extended-care facilities which are under control of a

hospital or affiliated with a hospital and which are designed primarily to render convalescent and rehabilitative services. Care in such a facility will frequently represent, particularly among the aged, the next appropriate step after the intensive care furnished in a hospital and will make unnecessary the continued occupancy of a high-cost bed normally used by acutely ill patients.

Services of this kind are essential in the over-all treatment of many illnesses following their acute stage and prior to the time a person can return to his home or transfer, in some instances, to an essentially custodial institution. And, of course, extended-care coverage, even for a limited duration, will also be of benefit to many older patients with chronic or terminal illness who can be transferred from intensive care in acute general hospitals.

Since the proposed program is designed primarily to support efforts to cure and rehabilitate, and since "nursing home" care, in many cases, is oriented not to curing or rehabilitating the patient but to giving him custodial care, the Council does not propose the coverage of care in nursing homes generally.

In order to provide an incentive for transferring a patient from a hospital to an extended-care facility at an early point, when such transfer is medically desirable, the Council believes that coverage should be provided for 2 additional days of extended care, if needed, for each day the patient's hospital stay is less than 60 days. A minimum of 30 days or so might be covered in all cases.

The Council recognizes that hospital-affiliated facilities which provide post-acute convalescent and rehabilitative care do not exist in many communities and that the services therefore may not be available immediately to many of the beneficiaries who might need them. The Council believes, however, that the coverage under the proposed program will encourage the development of such facilities and that, with the help of other programs designed to assist directly with construction, such extended-care services can be made generally available within a reasonable time.

## 5. Organized Home Nursing Services

*Insurance coverage should be provided for organized home nursing services.*

As a fourth element in the protection it proposes, the Council recommends the coverage of organized home nursing services—that is, services provided on a visiting basis in the patient's own home.



Coverage of medically supervised home nursing services provided through qualified nonprofit or public agencies would encourage the establishment of organized home care programs. Experience has shown that such visiting programs can bring high-quality care to the patient in his own home, thus avoiding the need for hospitalization altogether in some cases or facilitating the discharge of patients not only from hospitals but from extended-care facilities. The Council believes that a substantial number of professional visits a year—in the range of two to three hundred—should be covered in order to make organized home nursing services a real alternative to institutionalization.

Organized home care services sometimes include the services of hospital interns and residents-in-training. We believe that payment should be made for their services when furnished but only if the services provided are part of a professionally approved training program for such individuals.

## **6. Payments on the Basis of Reasonable Cost**

*The extent of hospital insurance and related protection should be specified in terms of the services covered rather than in terms of fixed dollars, and covered services should be paid for on the basis of the full reasonable cost of the services.*

The Council recommends that protection should be in the form of service benefits, with payments for covered services made directly to the institution or organization furnishing the services rather than payments of fixed dollar amounts to the beneficiary receiving the services. Service benefits would provide more secure and reliable protection for the patient and enable the program to promptly adjust payment to hospitals in accordance with changes in hospital costs resulting from the acquisition of new equipment, the adoption of new health practices, and the general improvement of services. The inpatient hospital benefits should cover all hospital services and supplies ordinarily furnished by the hospital for necessary care and treatment of its patients, except that accommodations more expensive than semi-private accommodations would be paid for only if medically necessary. Luxury items would not be included.

The hospital or other provider of service should be reimbursed for the reasonable cost of services provided. Payment on a reasonable cost basis would be in line with the recommendations of many expert groups, including the American Hospital Association.

The established practices of most Blue Cross plans are generally in line with this recommendation.

It is likely that no single formula for estimating the cost of services will prove best under all circumstances, and provision should be made to permit variations in hospital practices and services to be taken into account.

## **7. Hospital Staff Review of Utilization**

*Hospitals should be required, as a condition of participation, to establish professional staff committees to review the services utilized.*

Procedures for medical staff review of hospital admissions, length of stays, the medical necessity for services provided, and the efficient use of services and facilities are coming into use in many hospitals, and the experience with some of these procedures has been promising. Procedures for the recertification of the continued need for service by the attending physician have also been adopted in some hospitals.

The Council believes that all participating hospitals should be required to have staff committees to review the utilization of services and that consideration should be given to certification procedures. The structure and responsibilities of the staff committee should be left to the discretion of the hospital and its medical staff. However, such committees should be required at least to conduct sample reviews of hospital admissions among the beneficiaries of the program and to review long-stay cases. The professional judgments obtained through the use of such a staff committee would provide a safeguard against the improper use of services.

## **8. Administration**

*The proposed hospital insurance provisions should be administered by the same Federal agencies which administer the social security program but in carrying out this responsibility the Federal Government should use private and State agencies to the extent that these agencies can contribute to efficient and effective operation.*

The Council recommends that the Federal Government have over-all responsibility for the operation of the proposed hospital insurance program but that it use both qualified private organizations

and State agencies for the performance of certain functions where such use would contribute to the efficiency of administration.

Many of the functions necessary to the administration of the proposed hospital insurance provisions would require little, if any, additional effort since they are now being successfully performed under the social security program and would simultaneously serve the purposes of the hospital insurance provisions and the existing cash benefit provisions. These functions include the collection of contributions; the maintenance of earnings records; the establishment of age, disability, and the status of dependents; the determination of whether insured status requirements for eligibility are met; and the maintenance of current records of eligibles under the program.

The Council recommends, however, that the authority given to the Federal administrator should be flexible enough to permit him to determine whether or not to use the help of private and State agencies, and to what extent. Included among the functions which might be carried out by private agencies are those related to arranging for hospitals and other providers of health services to participate in the program and handling the payment of hospital bills covering costs insured by the program. State agencies which license health facilities could be used, for example, to assure that health facilities desiring to participate in the program meet the requirements for participation. The Government might find that functions such as these could be carried out better, or at less cost, if instead of performing them directly it arranged to have them performed by private and public agencies with experience in similar functions.

## **9. The Basis of Eligibility for Benefits**

*Hospital insurance benefits should be provided for aged and disabled beneficiaries of the social security program, and special provision should be made for the next few years for those who have not met the requirements of eligibility under the program.*

In the long run all people age 65 or over and all people with long-term total disabilities who have worked long enough to become entitled to monthly social security cash benefits will have paid hospital insurance contributions as well as contributions for cash benefits and will be entitled to both types of protection on the basis of the insured status provisions of present law.

The Council believes that the hospital insurance benefits should also be available to people who are age 65 or over, or who will become 65 in the next few years, whether or not they have made significant contributions toward hospital insurance and whether or not they are entitled to social security cash benefits. Such persons have not had the opportunity to gain protection by contributing to the hospital insurance program but their need for such protection is equally great.

People who attain age 65 after a specified date should be required to have a gradually increasing number of earnings credits under social security, and the number required for eligibility for hospital insurance should ultimately be the same as that required for social security cash benefits.<sup>20</sup> The cost of the protection provided under this provision should be met from general revenues, as explained below in the recommendation on financing.

After consideration of all possible alternatives, the introduction of hospital insurance by making it part of the ongoing social insurance system seems to be highly desirable in social, economic and administrative terms.

## 10. Financing

*The proposed hospital insurance program should be financed by a special earmarked contribution of 0.4 percent of covered earnings from employees and from employers, and 0.5 percent from the self-employed, with an 0.15 percent contribution from Federal general revenues to cover the cost of benefits for those already retired or disabled.*

The contributions for hospital insurance should be an earmarked percentage of covered earnings, established as a new tax, separate from the taxes in the Federal Insurance Contributions Act

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<sup>20</sup> For example, the provision might be as follows: Uninsured people who reach age 65 in 1966 or before would need no quarters of coverage; those who reach age 65 in 1967 would be deemed to be insured for hospital insurance if they had at least 6 quarters of coverage (earned at any time). For people who reach age 65 in each of the succeeding years, the number of quarters of coverage needed to be insured for hospital insurance protection would increase by 3 each year. The provision would not apply to people who reach age 65 in 1971 (or later), since, under the Council's recommendation, in that year the number of quarters that would be required under the special provision would be the same as the number required for regular insured status.



that support the present social security cash benefits. The proceeds of this new tax would be kept separate from the taxes which finance the present social security program. These proceeds would be deposited in a newly created hospital insurance trust fund separate from the old-age and survivors insurance trust fund and the disability insurance trust fund. However, the employment and earnings coverage and the maximum on covered earnings to which the new tax would apply should be the same as those to which the present social security taxes apply so that the recordkeeping tasks of employers and the Government would be largely unaffected by the establishment of a separate contribution for hospital insurance.

Hospital insurance financing separate from that of old-age, survivors, and disability insurance should allay any concern that the hospital insurance program might in any way impinge upon the financial soundness of the OASDI trust funds. Furthermore, identifying the contribution as a hospital insurance contribution will tend to increase the contributor's sense of financial responsibility for the benefits provided.

Several members of the Council, however, while believing in the value of a separate trust fund, are of the opinion that it is not necessary to have a new and separate tax either to allay possible concern about the financial soundness of the social security program, to maintain the identity of the hospital insurance financing, or, in general, to accomplish the objectives of the proposal.

The contribution rates should be 0.4 percent of covered earnings each for employees and employers and 0.5 percent for the self-employed.<sup>21</sup> It is assumed that these contributions for hospital insurance would go into effect at least 6 months earlier than the first hospital insurance benefits were paid. For example, if the plan were enacted in 1965, the contributions might go into effect in January 1966 and benefits might first be paid in July 1966.

In addition to the earmarked contributions there would be a contribution from Federal general revenues to meet the cost of hospital insurance benefits for those already retired or disabled. The

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<sup>21</sup> For the same reasons that the Council has recommended that the contribution rate paid by the self-employed toward old-age, survivors, and disability insurance be set in the long run at no more than 1 percent of earnings higher than the employee rate, the Council recommends that the rate paid by the self-employed for hospital insurance be a comparable 0.1 percent above the rate paid by employees (see page 24.)

Government contribution would be justified in terms of the health and welfare of the Nation's aged and disabled and the reduction in general revenue costs that will follow as social insurance reduces the need for public assistance. It is proposed that the cost to the Government be met by annual and automatic appropriations over a 50-year period. The Government's cost on this basis is estimated to be 0.15 percent of covered payrolls.

The recommended contribution rates are designed to be sufficient to cover the estimated costs of the proposed benefits both in the short run and over the long run. Because sound financing depends on the validity of the cost estimates used and this in turn depends on the validity of the assumptions which underlie the estimates, the Council believes it to be in order for this report to contain a statement of the assumptions it has directed be used in making the cost estimates.

As in the case of estimates of the cost of cash benefits under the social security program, assumptions underlying hospital insurance cost estimates can vary widely and still be reasonable. For hospital insurance the range over which cost assumptions may vary and still be reasonable is somewhat greater than for the cash benefits. For this reason, we have taken great care to assure that the assumptions used in estimating the costs err, if at all, on the conservative side.

Clearly, the cost of the proposed program, expressed in dollars, will be an increasing cost. One important factor which will tend to increase the cost of the program over time will be the rising cost per day of hospitalization. Another factor tending to increase costs will be the growing number of people who are eligible for hospital insurance. A third factor is the increasing average age of those who will be protected.

Since the income to the system will come from a percentage of covered earnings, and since over the years it can be expected that more and more people will be employed and that earnings levels will rise, the income of the system will also increase. To take into account both rising costs and rising income, the analysis of financing is done in terms of costs as a percent of covered (taxable) earnings. Thus, the Council's assumptions concerning future hospital costs are stated in terms of the expected future relationship between rising hospital costs and rising earnings—of how increases in hospital costs will compare with increases in covered earnings (and therefore with increases in contribution income).

Earnings reflect the increasing productivity of labor. Therefore, on the average and over time, the general level of earnings will increase much faster than the general price level. But in recent years the reverse has been true in the case of hospital prices; they have been increasing substantially faster than the general level of earnings. Obviously, however, hospital costs cannot continue indefinitely to rise faster than earnings; if they did, ultimately no one could afford hospital care. Nevertheless, the financing of the hospital insurance program must make allowance for the strong likelihood that hospital costs will, for a time, continue to increase faster than earnings. A reasonable assumption would be that the differential between the rate of increase in hospital costs and the rate of increase in earnings will get smaller and that eventually hospital prices will increase at a somewhat lower rate than earnings even though at a much higher rate than other prices.

Specifically, our assumption for the relatively short run is that hospital costs will rise faster than earnings for 10 years after the program begins operation, but not quite as fast thereafter. The Council has assumed that until 1970 the differential between hospital costs and earnings will continue to be the same as the average over the last 10 years (2.7 percent)<sup>22</sup> and that in the following 5 years the differential will average half as much.<sup>23</sup>

The Council does not presume to have any firm basis for knowing just how much hospital prices or other prices will rise in the distant future. However, because of the comparatively large compo-

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<sup>22</sup> Although figures for the 10 years *average* 2.7 percent, the 2 most recent years for which data are available (1962-1963) show a differential between hospital cost increases and earnings increases of only a little over 2 percent for each of these years. Nevertheless we have used the 10-year average in order to make sure that the cost projections will be conservative. Also relevant is the fact that a substantial proportion of the increases in hospital costs that have occurred over the last 10 years is attributable to a catching up in wages and a reduction in the hours of work of hospital employees, who as a group have been considerably underpaid. The catching-up process will, naturally, complete its course in time.

<sup>23</sup> By way of comparison, it may be noted that the major organization representing the commercial health insurance industry assumed smaller rises in hospital costs for this period in its estimates on the costs of the King-Anderson bill. Specifically, it estimated that hospital costs will rise 2 percent per year more rapidly than earnings from 1963 through 1968 and 1 percent more rapidly than earnings from 1969 through 1978. (Pages 587 and 588 of the record of hearings on H.R. 11865 before the Committee on Finance, United States Senate, August 1964—appendix to testimony on behalf of the Health Insurance Association of America.)



ment of labor costs which will always be present in health services and because of the cost of increasing quality of care, the Council has assumed that hospital costs will probably rise indefinitely considerably faster than other prices. Therefore, the Council's assumption on the relation of hospital costs to earnings is that after the first 10 years of the program's operation (during which hospital costs are assumed to rise faster than earnings), hospital costs will rise slightly less than earnings but substantially more than other prices. (See pages 102-104, Appendix B, for further discussion of the specific assumptions.)

The conservative nature of this assumption is made plain when one considers the future price levels it implies. The over-all effect of the assumed price rises, if the past relationship between earnings and the general price level continues, is that in the next 75 years hospital prices will have risen 710 percent while other prices will have risen by about 110 percent.

Another factor that affects the financing of the system is the limitation placed on the maximum amount of annual earnings subject to contributions (the contribution base) and its relationship to increases in earnings levels. As has been noted, income to the system tends to rise as earnings rise. However, if over the long run the maximum on earnings which are taxed were fixed—that is, if the maximum did not rise as earnings rise—there would be an increasingly inhibiting effect on contribution income. More and more people would be paying contributions on the maximum earnings covered, and increases in their earnings would not be subject to the contribution rate.

The Council's assumption is that the contribution base will not remain fixed. In the short run the Council recommends an increase in the base in 1966 and 1968, primarily to take account of the past rise in earnings levels. For the longer run, one of the assumptions made in preparing cost estimates for hospital insurance is that periodically there will be increases in the contribution base if earnings rise. These increases are assumed because the base, which under the cash-benefit provisions is also the maximum amount of earnings creditable for benefits, must be kept generally in line with changes in earnings levels if cash social security benefits are to continue to have a reasonable relationship to the earnings they are intended to replace and if social security contributions are to vary with earnings.



The great bulk of the income from contribution base increases would of course be used to raise cash benefits to keep them in line with higher earnings levels. For example, if hospital insurance contributions are about one-tenth of contributions under the old-age, survivors, and disability insurance program (as the Council recommends) a little over 90 percent of the income from any future increase in the contribution base would go toward old-age, survivors, and disability insurance and a little less than 10 percent toward hospital insurance.

The Council's assumption is, then, that legislative action will be taken from time to time to adjust the contribution base in line with rising earnings. However, the Council recognizes that over the short run the increases which it expects in the contribution base, beyond those adopted concurrently with hospital insurance, may not occur as anticipated. The Council recommends, therefore, that the contribution rates for hospital insurance be designed to provide sufficient income to cover benefit expenditures even if, for a number of years, no further increase in the base is enacted. The contribution rates proposed by the Council are so designed.

In summary, the principles which the Council has followed in making its recommendation for the contribution rates necessary to support the proposed hospital insurance program are as follows: The Council recommends that the income to the hospital insurance program be large enough each year to cover benefit outgo with a prudent allowance for increases in hospital costs as well as for the possibility that the contribution base increases may lag behind rising earnings.

A contribution rate of 0.4 percent each for employee and employer (0.5 percent for the self-employed) together with the 0.15 percent from the Government would be sufficient not only to meet benefit costs but also to build up substantial amounts in the hospital insurance trust fund. The new trust fund would have a sizeable balance from the start, since contributions toward the program would be collected 6 months or so before benefits would be paid.

The recommended maximum amount of annual earnings taxable would be \$6,000 in 1966 rising to \$7,200 in 1968, a recommendation discussed in Part I. While, as indicated above, it is contemplated that this maximum would rise in the future, the recommended contribution schedule would yield income in excess of outgo for at least the next 10 years even if the base is not increased after 1968.

The following table summarizes the cost effect of the four types of benefits proposed to be covered:

### ACTUARIAL BALANCE UNDER PROPOSED PLAN OF HOSPITAL INSURANCE

(Costs expressed as percentage of taxable payroll according to  
intermediate-cost estimates)

<i>Item</i>	<i>Level-Cost</i>
<b>Level-Cost Effect of Changes:</b>	
Hospital benefits, 60-day maximum, ½-day deductible . . .	+. 84
Extended care services, 30-day maximum <sup>1</sup> . . . . .	+. 02
Outpatient diagnostic services, deductible of ½-day hospital cost . . . . .	+. 01
Home nursing services, 240-visit maximum . . . . .	+. 03
Level-Cost of Proposed Program . . . . .	. 90
Level-Equivalent of Contribution Schedule <sup>2</sup> . . . . .	. 90
Actuarial Balance . . . . .	. 00

<sup>1</sup> With additional days if all of hospital benefits are not used.

<sup>2</sup> The 0.15 percent of payroll from general revenues for 50 years is equivalent to a level rate of 0.10 percent of payroll.

**Conclusion:** The Council finds that health costs represent the greatest remaining threat to the economic security of our aged and severely disabled citizens. The social insurance approach, the Council believes, is singularly fitted to serve in dealing with this threat. What is needed is an arrangement under which working people, together with their employers, can contribute from earnings during their working years and have insurance protection against health costs in later years, without further contribution, when their health costs will be high and their incomes low. Only social insurance, as typified by the social security program, can assure that such an arrangement will apply to practically everyone who works for a living.

The Council has developed and presented in this report a plan under which the major part of the costs incident to hospitalization and related care in old age or during periods of total disability will be paid for through the contributory social security program. The plan will pay for these costs in a way which is in keeping with the high standards of American health care. The plan will be responsive to changing methods and improvements that are likely to occur in health care in this country. The plan will accommodate the individual's freedom of choice of health care facilities and will in no way interfere with the private practice of medicine or with the

independence of our voluntary hospital system. The Council has included recommendations which, if adopted, would assure that the proposed plan of hospital insurance for older people and totally disabled people will be soundly financed through its own contribution schedule and trust fund.

While neither private insurance nor public assistance, alone or together, can meet the pressing need for hospital protection on the part of the aged and disabled, the recommended plan contemplates an important role for both. The hospital protection proposed to be provided under the social security program will serve as a foundation on which individuals can build private health insurance, just as old-age, survivors, and disability insurance under social security is serving as a base on which people build additional protection through private means. With social security providing basic protection against hospital and related costs, public assistance will assume the role best suited for it—that of a program intended to help the members of the relatively small group whose special needs and circumstances are such that they are unable to meet their health costs through social security or through private insurance or other resources.

The Council is confident that the principles of social insurance underlying its recommended plan for hospital insurance for the aged and the totally disabled can be applied successfully as they have been applied to social security cash benefits. Today's social security program assures that the vast majority of older people and totally disabled people will receive a regular monthly income to help them meet the costs of day-to-day living. The proposed provisions for hospital insurance will round out this security by removing the greatest remaining obstacle to the financial independence of these groups. With such provisions in effect, millions of our older citizens will be able to look forward to their years of retirement without the dread of overwhelming costs arising from serious illness.

## PART III

# Improvements in the Cash-Benefit Provisions

In general the Council believes that the present program is functioning well and that its basic structure is satisfactory. The most important improvements in the cash-benefit provisions, and particularly in the benefit amounts, that the Council is recommending are designed to take into account recent wage and price changes. The effectiveness of the social security benefits has been diminishing because the benefits for the last 6 years have not even kept pace with rising prices and because the maximum amount of annual earnings that is taxable and creditable toward benefits has not been raised as the general level of wages has gone up.

The Council has also found that although the program is very broad in its coverage—about nine-tenths of the people who at any one time are in gainful employment in the United States are covered—there are some areas where its coverage should be further extended, and that while benefit payments are now provided in most cases in which support is lost when the worker retires in old age, becomes disabled, or dies, there are a few remaining gaps that should be filled.

The improvements recommended by the Council require additional financing; the cost of those improvements and the recommendations for providing the needed additional financing are discussed at the conclusion of this section.

Before the recommendations of the Council are set forth in detail, it may be helpful to summarize briefly the major provisions of the present program.

Monthly benefits are payable under the program to retired insured workers at age 65, and reduced-rate benefits may be paid to them as early as age 62. Benefits may also be paid to the following dependents: A wife or dependent husband age 65 or over (or age 62



with a reduction in the benefits); children under age 18 or disabled before age 18; and a wife of any age caring for a child entitled to benefits. Monthly benefits are payable to insured workers who have very severe and long-continued disabilities and to the dependents of such workers. Upon the death of an insured worker, monthly benefits are payable to a surviving widow or dependent widower age 62 or over; children under age 18 or disabled before age 18; a mother who has such a child in her care; and dependent parents age 62 or over. A lump-sum death payment is also made.

Benefit amounts under the program are related to the average earnings of the insured worker in covered employment; currently, however, only the first \$4,800 of the worker's earnings in a year is included in calculating the average. The minimum benefit payable to a worker who goes on the benefit rolls at age 65 or later is \$40 a month and the maximum is \$127 a month. A man and wife both going on the rolls at 65 or later receive half again as much. Maximum benefits to a family based on a worker's earnings range up to \$254 a month.

Almost everyone who works is covered by social security. The only major groups excluded from coverage are self-employed physicians, Federal employees under the civil service retirement system, self-employed persons with annual net earnings of less than \$400, and farm and household workers with irregular employment. Employees of State and local governments and of nonprofit organizations may obtain coverage on a voluntary group basis and almost 80 percent have done so. Railroad employees, through a coordination of the railroad retirement and social security programs, are in effect covered by social security.

The program, then, furnishes basic retirement, disability, and survivor protection to practically all of the American people. The Council believes enactment of the recommendations discussed in the pages that follow will enable the program to do so more effectively.

### **Social Security Benefit Amounts**

The social security program today is the major reliance of most of our people for income security in old age. As indicated in Part II, about one-half of the older social security beneficiaries have less than \$12.50 a month in continuing retirement income other than their social security benefits, and for all but about one-fifth of the beneficiaries, benefits are the major source of continuing retire-

ment income.<sup>24</sup> With social security benefits the source of almost all of the regular retirement income received by so many of the older people in the country and the main reliance of so many more, it is essential that the benefit structure be examined from time to time to make sure that benefits are reasonably adequate.

Benefits for a retired worker (men and women) alone average only \$74 a month; for an aged couple, \$130. Two-thirds of the couples on the benefit rolls are getting less than \$158 a month. Even for people now coming on the benefit rolls at or after age 65, the old-age benefits for men alone average \$103 a month; for couples, \$159. The Council believes that these amounts are too low.

In considering how best, within the limitations imposed by the necessities of financing, to improve benefits for both present beneficiaries and for those who become beneficiaries in the future the Council examined the several factors that determine benefit size—the contribution and benefit base, the provisions for translating the record of credited annual earnings into the “average monthly earnings” on which the benefit is based, the special provisions for reduced benefits for those who retire early, and the structure of the formula for deriving the monthly benefit from the average monthly earnings. As a result of its examination, the Council is recommending changes in three of the four factors and an intensive study of possible changes in the fourth.

The recommendation of the Council for increasing the contribution and benefit base is outlined in Part I of this report (on page 22) because of its implications for the financing of the program. Raising the base in line with rising earnings has equally important implications for the benefit structure of the program. Social security is important to average and above-average earners as well as to low-paid people. Over the years, the erosion of the base has meant that the protection for the higher earner has significantly deteriorated. For example, a man who was earning \$3,000 in 1940 had all of his earnings counted and, looking forward to retirement in 1965, could expect to get a benefit that would equal 21 percent of these earnings; in 1965 a man who was earning \$3,000 in 1940, if his earnings rose in proportion to the rise in earnings generally, will be earning about \$13,000, and under the \$4,800 base now in effect would get a benefit that would equal only 11 percent of his earnings today. Today about two-thirds of the regularly employed men have earnings above the maximum which can be counted for benefit purposes. The Council believes that improvement of the benefits payable at earnings

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<sup>24</sup> See footnotes 16 and 17, page 32.

levels above \$4,800 for people retiring in the future through increasing the base is necessary in order to preserve the wage-related character of the program and to make it more effective for the average and above-average earner.

The other recommendations of the Council for improving the benefit structure are discussed in detail in the following pages.

### **1. The Period for Computing Benefits for Men**

*The period for computing benefits (and insured status) for men should be based, as is now the case for women, on the period up to the year of attainment of age 62, instead of age 65 as under present law, with the result that 3 additional years of low earnings would be dropped from the computation of retirement benefits for men.*

The Council recommends that the period used for computing benefits for men in retirement cases should be shortened by 3 years, making it the same as for women. While retirement benefits are payable to men and women at age 62, and while the reduction rates applicable where benefits are taken before age 65 are the same for men as for women, the average monthly earnings for men are computed over a period equivalent to the number of years (less 5 years) up to attainment of age 65, whereas for women they are determined over a period equivalent to the years (less 5 years) up to age 62. If a man does not work after age 62 his average monthly earnings and the resulting benefits generally will be reduced, but a woman's failure to work past age 62 generally has little or no adverse effect on her benefits.<sup>25</sup>

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<sup>25</sup> The following example illustrates the effect on benefit amounts of shortening by 3 years the period over which a man's average monthly earnings are figured: A man who earned \$3,000 in each year, 1951 through 1958, became unable to continue at his regular work in 1959 and his earnings decreased to \$1,500 a year in 1959 through 1964. He reached age 62 in 1965, had no earnings in that year, and took his reduced old-age benefit. Under present law, only 5 years, including the 3 years from age 62 to 65 in which he had no earnings, could be omitted in figuring his average monthly earnings, with the result that he would get a benefit of \$68.80 at age 62 (his average monthly earnings of \$208 would yield an unreduced benefit of \$86). Under the recommendation an additional 3 years would be dropped from the computation and his benefit would be \$73.60 (based on average monthly earnings of \$236 and an unreduced benefit amount of \$92).

With the general benefit increase recommended by the Council the man would get a benefit of \$87.20 (based on an unreduced benefit of \$109) with the shorter computation period, while under the benefit increase alone and with the present age 65 closing point he would get a reduced benefit of \$82.40.



The Council is concerned about the low benefits payable to men who have been coming on the benefit rolls before age 65, especially those whose retirement has been involuntary. Almost one-half of the men awarded old-age benefits in the fiscal year 1964 get reduced benefits because they came on the rolls before age 65, and their benefits are, on the average, much lower than the benefit amounts payable to men who come on the rolls at age 65 or after—for fiscal year 1964 awards, \$75 for men who came on before 65 as compared to \$103 for men who came on at or after 65.

The reduced benefits which are now paid to men and their wives who start to get old-age benefits before age 65 are below what they can be expected to live on. As a result it may be anticipated that many will sooner or later have to apply for assistance; and the role of public assistance in providing income for people who can no longer work—a role which has diminished over the years as the social security program has grown—can be expected to expand. The proposal to end the computation period for men at 62 instead of 65 will alleviate this situation.

The Council is not certain, however, that this change will improve benefits enough for people who are forced into early retirement. It may be necessary later to consider providing for a smaller-than-actuarial reduction in benefits for people who come on the rolls before age 65. Provision for a smaller reduction, though, would be relatively expensive and could have adverse effects on private pension plans. It might also have effects on retirement policies and on the general patterns of work and retirement in the later years of life.

Because of the importance of such a change, the Council does not want to make any recommendation on the basis of the present limited experience with the age-62 actuarial-reduction provision for men. The provision permitting men to get benefits at 62 was enacted in 1961, and available data, much of which relates only to the year 1962, may not be representative of the ongoing situation. The Council recommends that the Social Security Administration continue to collect information about the people who come on the benefit rolls before age 65. The information should include data relative to both their past work experience and their current financial situation, and should provide answers to such questions as the following: how many have been regular full-time workers over the greater part of their lives, and how many have been only intermittently or casually employed; how many have been the primary earners in their families, and how many have been secondary earners; how many are unskilled workers, how many have skills that have become obsolete



because of technological or economic change, and how many have skills that are still useful and in demand; and how many are retiring voluntarily, how many are being forced to retire, and how many have already been out of employment for some time.

Shortening by 3 years the period for computing benefits for men will, of course, benefit men who retire at or after age 65 as well as those who retire before age 65; it will also result in the payment of higher benefits in some cases to the dependents of retired men and to the survivors of men who die after reaching age 62. The proposal will also make payable more quickly, as far as men are concerned, the higher benefits that will become possible with the increased contribution and benefit base that is being recommended by the Council. The reason why this happens is that with a computation period shorter by 3 years than it would be under present law, fewer years prior to the effective date of the new base would have to be included in the computation and the average monthly earnings would consequently be higher.<sup>26</sup>

## 2. A General Increase in Benefits

*A general increase in benefit amounts, accomplished by a change in the way the benefit formula is constructed, should be provided to take into account increases in wages and prices since the last general benefit increase in 1958, and the maximum on monthly family benefits should be related to earnings throughout the benefit range.*

The Council recommends a general benefit increase which will average about 15 percent but which will be accomplished, not by increasing each benefit by 15 percent, but rather by a change in the way the benefit formula is constructed. About half of the 15 per-

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<sup>26</sup> For example, take the case of a man who has always earned at or above the maximum taxable level and who attains age 65 and retires on January 1, 1971. Assuming that the Council's recommendations with respect to the contribution and benefit base and the benefit formula were enacted, but the years up to 65 had to be used in computing the average monthly earnings, this man's average would be figured over his highest 15 years of earnings after 1950 and thus would be based on 3 years of earnings at \$4,200, 7 years at \$4,800, 2 years at \$6,000, and 3 years at \$7,200. His average monthly earnings would be \$443 and his benefit would be \$153. If, on the other hand, the recommendation for dropping out 3 more years in such cases is adopted, the 3 years in which his earnings were \$4,200 would be dropped from the computation, his average monthly earnings would be \$466 and his monthly benefit would be \$158.

cent will go to restoring the purchasing power of the benefits, taking account of increases in prices since 1958, the time of the last general benefit increase. The remainder will be used to adjust in part to the increase in earnings that has taken place and so improve the real value of the benefits.

The Council believes that while the increase to make up for the increase in the cost of living, amounting to about 7 percent, should be applicable at all benefit levels, the improvement in the real value of the benefits should not be uniformly applicable at all levels.

Instead of the large increase in the percentage factor applicable to the lower part of the average monthly earnings that would arise from such a uniform application, the Council proposes to increase the amount of average monthly earnings to which the heavier weighting applies.<sup>27</sup> The purpose of having a weighted formula is to give recognition to the fact that the lower-paid worker and his family have less margin for reduction of their income and are less likely to have other resources than higher-paid workers; and the level of earnings that marks what can be considered a lower-paid worker goes up as earnings go up generally. In recognition of this fact, the amount of average monthly earnings to which the higher percentage applies was increased from the original level of \$50, set in 1939, to \$100 in 1950 and to \$110 in 1954. In view of the increase in wages that has occurred since 1954, when the amount was last changed, the Council believes that in effect the definition of what constitutes a low-paid worker should be changed again by an increase in the level of earnings to which the higher percentage is applied, and the Council recommends an increase from \$110 to \$155.<sup>28</sup>

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<sup>27</sup> In order to provide a larger benefit relative to earnings for lower-paid people than for higher-paid people, social security benefit amounts have always been based on a formula that is weighted to pay a relatively larger percentage of average earnings up to a certain amount and a smaller percentage of earnings above that amount. The formula underlying the benefit table now in the law is 58.85 percent of the first \$110 of average monthly earnings and 21.4 percent of the remainder.

<sup>28</sup> The result of the Council's recommendation for a change in the level of earnings to which the higher percentage is applied is that benefit amounts payable at average monthly earnings above \$155 (and up to the present maximum average monthly earnings of \$400) will be increased by a flat amount of about \$17 (see table on page 61). Above the present maximum average monthly earnings of \$400, of course, the increase in the contribution and benefit base will gradually produce benefits, for those who pay on the higher base and retire in the future, that will be considerably more than \$17 above the present maximum benefit of \$127.

The reason for not applying more than a 7-percent cost-of-living increase at the lower levels of average monthly earnings is that the increase at average monthly earnings below, say, \$100 would go mostly to people who have not worked regularly under the program, and whose benefits are already almost as large for a couple as the earnings on which the benefits are based.

Although no substantial increase should be made in the percentage factor applying to the lower part of the average monthly earnings, since this would tend to increase benefits for people who work under the program only part time, such as people who spend most of their lives as Federal workers, as housewives, or in noncovered State and local government employment, the Council does favor improving the situation for the low-paid worker who is regularly covered. The Council believes that if the social security program is to do an adequate job as the basic system providing retirement income, one goal must be that such a low-paid worker will get benefits high enough so that he will not have to turn to public assistance to meet regular living expenses. Low-paid workers are not likely to have significant savings or private pensions; and in the absence of adequate social security benefits, most of them will have to turn to assistance to supplement their benefit income. In the opinion of the Council supplementation of benefits by assistance on a large scale to meet regular recurring expenses is undesirable. The goal should be to have social security benefits meet regular, ordinary living expenses and to have assistance serve as a backstop to meet special and unusual needs. The Council believes therefore that the level of benefits should be such that a regular full-time worker at low earnings levels will ordinarily not have to apply for assistance.

Under present law, if a worker has average monthly earnings of \$200 a month (the equivalent of full-time earnings at the Federal minimum wage) he and his wife will get a retirement benefit of \$126 starting at age 65. Forty-one of the fifty States have old-age assistance standards for a couple that are higher than \$126 a month (not counting any allowance made for medical care), and the median standard for a couple is \$147 a month. With the benefit increase that the Council is recommending, a worker earning \$200 a month and his wife would get total monthly social security benefits of \$151.50, an amount that would be more than or within a few dollars of the assistance standards of 30 of the 50 States. Workers who earn more than minimum wages would of course get higher benefits.

The following tables illustrate benefit amounts that would be payable under the Council's recommendations for changing the

method of computing the benefits. The effect of the Council's recommendation for increasing the contribution and benefit base is also shown in the tables.

**Benefit Amounts Payable to a Retired Worker  
Who Comes on the Benefit Rolls at age 65 or Over  
Under Present Law and under the Council's Recommendations**

<i>Average Monthly Earnings</i>	<i>Primary Insurance Amounts</i>		<i>Percent Replacement of Average Monthly Earnings</i>	
	<i>Present Law</i>	<i>Proposal</i>	<i>Present Law</i>	<i>Proposal</i>
\$67 <sup>1</sup> .....	\$40	\$43	59. 7	64. 2
100 .....	59	63	59. 0	63. 0
110 <sup>2</sup> .....	65	70	59. 1	63. 6
124 <sup>3</sup> .....	68	73	54. 8	58. 9
155 <sup>4</sup> .....	74	91	47. 7	58. 7
200 .....	84	101	42. 0	50. 5
300 .....	105	122	35. 0	40. 7
400 <sup>5</sup> .....	<sup>5</sup> 127	144	31. 8	36. 0
500 .....	<sup>5</sup> 127	165	25. 4	33. 0
600 <sup>6</sup> .....	<sup>5</sup> 127	<sup>6</sup> 186	21. 2	31. 0

**Benefits Payable to a Married Couple  
Coming on the Benefit Rolls at Age 65 or Over  
Under Present Law and under the Council's Recommendations**

<i>Average Monthly Earnings</i>	<i>Benefit Amount</i>		<i>Percent Replacement of Average Monthly Earnings</i>	
	<i>Present Law</i>	<i>Proposal</i>	<i>Present Law</i>	<i>Proposal</i>
\$67 <sup>1</sup> .....	\$60. 00	\$64. 50	89. 6	96. 3
100 .....	88. 50	94. 50	88. 5	94. 5
110 <sup>2</sup> .....	97. 50	105. 00	88. 6	95. 5
124 <sup>3</sup> .....	102. 00	109. 50	82. 3	88. 3
155 <sup>4</sup> .....	111. 00	136. 50	71. 6	88. 1
200 .....	126. 00	151. 50	63. 0	75. 8
300 .....	157. 50	183. 00	52. 5	61. 0
400 <sup>5</sup> .....	<sup>5</sup> 190. 50	216. 00	47. 6	54. 0
500 .....	<sup>5</sup> 190. 50	247. 50	38. 1	49. 5
600 <sup>6</sup> .....	<sup>5</sup> 190. 50	<sup>6</sup> 279. 00	31. 8	46. 5

<sup>1</sup> The highest amount of average monthly earnings on which the minimum benefit of \$40 is payable under present law.

<sup>2</sup> The highest amount of average monthly earnings to which the higher percentage in the benefit formula in present law is applied.

<sup>3</sup> The smallest amount of average monthly earnings to which the recommended formula applies; at all lower average monthly earnings levels the 7-percent increase is larger.

<sup>4</sup> The highest amount of average monthly earnings to which the higher percentage in the formula would be applied under the Council's recommendation.

<sup>5</sup> The maximum under present law.

<sup>6</sup> The maximum under the \$7,200 contribution and benefit base which the Council recommends go into effect in 1968.



The Council recommends also that the method of determining family maximum benefits be changed. At present, over a wide range of average monthly earnings at the higher levels, the maximum family benefit is a flat dollar amount unrelated to the average monthly earnings on which the individual benefits are based.<sup>29</sup> Under the Council's recommendation the family maximum would no longer have a flat dollar limit but would be determined by a weighted formula under which the family maximum at the higher earnings levels, as well as at the lower levels, would be related to previous average monthly earnings.<sup>30</sup> Such an approach would get away from a fixed dollar limit yet would continue to avoid the payment of excessively large family benefits at the higher earnings levels.

This new approach was embodied in the omnibus social security bill that passed both the Senate and the House of Representatives in 1964, but did not become law because the Conference Committee was unable to agree on other provisions in the bill.

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<sup>29</sup> Specifically, the maximum family benefit under present law is \$254 (twice the maximum benefit payable to a retired worker) or 80 percent of the average monthly earnings (but it is not permitted to reduce the family benefits to less than  $1\frac{1}{2}$  times the worker's primary insurance amount. The \$254 limit applies at all levels of average monthly earnings above \$314.

<sup>30</sup> Specifically, the family maximum would be 80 percent of the average monthly earnings up to the point at which the average monthly earnings amount is two-thirds of the maximum possible average monthly earnings under the contribution and benefit base specified in the law. The family maximum at earnings levels above this breaking point would be increased by 40 percent of the amount of the average monthly earnings over the breaking point. For example, if the contribution and benefit base were \$6,000 the family maximum would be 80 percent of the average monthly earnings at earnings levels up to \$333; at earnings levels between \$333 and \$500 it would be 80 percent of the first \$333 plus 40 percent of any additional average monthly earnings, so that at the \$500 level the maximum would be \$333, or two-thirds of the average monthly earnings to which it applies.

The following table illustrates family maximum benefit amounts that would be payable under the Council's recommendations:

**Maximum Family Benefits Payable under Present Law and under the Council's Recommendations**

<i>Average Monthly Earnings</i>	<i>Family Maximum</i>	
	<i>Present Law</i>	<i>Proposal</i>
\$67 <sup>1</sup> .....	\$60. 00	\$64. 50
100 .....	88. 50	94. 50
110 <sup>2</sup> .....	97. 50	105. 00
124 <sup>3</sup> .....	102. 00	109. 50
155 <sup>4</sup> .....	124. 00	136. 50
200 .....	161. 60	161. 60
300 .....	240. 00	240. 00
400 <sup>5</sup> .....	<sup>5</sup> 254. 00	320. 00
500 .....	<sup>5</sup> 254. 00	360. 00
600 <sup>6</sup> .....	<sup>5</sup> 254. 00	<sup>6</sup> 400. 00

<sup>1</sup> The highest amount of average monthly earnings on which the minimum benefit of \$40 is payable under present law.

<sup>2</sup> The highest amount of average monthly earnings to which the higher percentage in the benefit formula in present law is applied.

<sup>3</sup> The smallest amount of average monthly earnings to which the recommended formula applies; at all lower average monthly earnings levels the 7-percent increase is larger.

<sup>4</sup> The highest amount of average monthly earnings to which the higher percentage in the formula would be applied under the Council's recommendation.

<sup>5</sup> The maximum under present law.

<sup>6</sup> The maximum under the \$7,200 contribution and benefit base which the Council recommends go into effect in 1968.

### **3. The Maximum Lump-Sum Death Payment**

*The maximum lump-sum death payment should not be set in terms of an absolute dollar limit but rather should be the same as the highest family maximum monthly benefit.*

Under present law the lump-sum death payment is equal to 3 times the primary insurance amount of the deceased worker but it may not exceed \$255. The \$255 limit on the maximum lump-sum death payment was established by the Congress in 1952 and it has not been changed since that time. This limit, which applies at all levels of primary insurance amounts above \$85 (average monthly earnings levels above \$207), is becoming increasingly outdated because it is unrelated to earnings levels or benefit amounts and has not been increased as earnings levels have risen or as monthly benefit levels have been increased.

Since 1952 the Consumer Price Index has risen by more than 16 percent. More significantly, over the same period the average cost of an adult's funeral has gone up at least 30 percent; and medical costs, much of which in the case of the last illness is likely to have to be met from the estate, or by the survivors, have increased almost 50 percent.

The Council believes that the lump sum should not be subject to a dollar limit that is allowed to remain stationary when other provisions of the law are changed, but rather that the dollar limit should be adjusted with other provisions of the law as earnings levels rise. The Council recommends specifically that the provision governing the amount of the maximum lump sum be changed from the present one prescribing an absolute dollar limit of \$255 to a provision that the maximum lump sum shall be equal to the highest family maximum monthly benefit. Lump-sum death payments up to the new maximum would continue to be equal to 3 times the primary insurance amount. And the maximum lump sum would increase whenever the maximum family benefit is increased so that it would not remain stationary in the future as it has over the past 12 years.

### **Dependents' and Survivors' Benefits**

Since the decision in 1939 to provide family protection—that is, to protect those who normally depend on the worker for support as well as the worker himself—Congress has provided benefits in most situations where it is necessary and appropriate to replace the support lost by a dependent or survivor as a result of the retirement, disability, or death of the worker. The Council has concluded, however, that there are a few additional dependency situations for which protection should be provided.

#### **4. Children Over Age 18 Attending School**

*Benefits should be payable to a child until he reaches age 22, provided the child is attending school between ages 18 and 22.*

Benefits under the social security program should be paid to a child as long as it is reasonable to assume that he is dependent on his family. Under the present law, child's insurance benefits (except for a disabled child) are payable only until age 18, presumably on the theory (not an unreasonable one at the time that benefits were

first provided for children by the 1939 amendments) that by age 18 a child can be expected to support himself.<sup>31</sup> With the growing importance of education in modern life it is becoming increasingly clear that this is not a reasonable expectation. Today at least some education beyond high school is rapidly becoming part of our general level of living and will increasingly be necessary because of rapid technological advancement and the growth in the number of professional, technical, and other jobs requiring higher levels of education. As a consequence the period of dependency of children has been lengthening.

There is precedent in other Federal programs for paying benefits to children after they reach the age of 18 while they are in school. The civil service retirement program generally pays benefits up to the end of the academic year in which the student reaches age 21. Under three veterans' programs—the dependency and indemnity compensation program, the non-service-connected death pension program, and the war orphans education assistance program—a child may get benefits after he reaches age 18 while he is attending school. Under an amendment enacted in 1964 to the program of aid to families with dependent children the Federal matching share in assistance payments may be continued up to age 21 where a child is attending a high school or a vocational school.

The Council does not recommend that mother's benefits be made payable to a mother where the only child getting benefits is age 18 or over and is getting benefits on the basis of being a student. Benefits are paid to a wife or widow under age 62 who has a child in her care if she does not have earnings from work above specified limits, in recognition of her need to stay at home to care for the child. Where the only child is age 18 or over there is not the same reason to pay mother's benefits, since there is no need for the mother to stay home to care for the child.

An amendment similar to that recommended by the Council, to continue social security benefits after a child reaches age 18 when the child is still in school, was passed by both houses of Congress in 1964 but failed to become law because the Conference Committee was unable to agree on other provisions in the omnibus bill.

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<sup>31</sup> Under the 1939 provision, benefits could not be paid to a child over 16 for any month in which he was not regularly attending school unless school attendance was not feasible; the school attendance requirement was repealed in 1946.



## 5. Disabled Widows

*The disabled widow of an insured worker, if she became disabled before her husband's death or before her youngest child became 18, or within a limited period after either of these events, should be entitled to widow's benefits regardless of her age.*

The Council believes that the disabled widow, like the widow who is aged 62 or over or the widow who has a child of the deceased worker in her care, needs benefits when her husband dies. The Council therefore recommends that benefits be paid to the widow so disabled that she cannot work—provided, however, that she was disabled at the time of her husband's death or before her youngest child reached age 18, or within a limited period after either of these events.

The widows who would be protected are those who, when their husbands die, suffer a loss of support and who, because they are disabled themselves, have no opportunity to work and thus to substitute their own earnings for that loss of support. On the other hand, the Council does not believe it would be in keeping with the purpose of the program to pay widow's benefits on account of disability to a woman whose disability occurred after she could have reasonably been expected to have worked long enough to earn disability insurance benefits in her own right. For example, it would not seem of high priority to pay widow's benefits to a widow who was, say, 30 years old and childless when her husband died and who did not become disabled until many years later. Such a widow would most likely have gone to work and earned disability protection in her own right, and, if she had not worked after she was widowed, it would seem unreasonable to pay her a benefit on the grounds that a physical or mental impairment that developed later in life was preventing her from working.

A theoretical case can also be made, perhaps, for providing benefits for other disabled dependents (almost all of them would be disabled wives who are under age 62) of retired or disabled workers. However, it cannot be assumed that younger wives of older retired men and wives of disabled men look to employment for support to anywhere near the extent that widows do. Thus extending the group of disabled dependents to include wives would result in the payment of benefits in many cases where the couple had not experienced any loss of earned income as a result of the disability of the wife. Considering this fact, the Council believes that additional information is needed to determine whether it would be desirable to pay benefits to disabled wives as well as widows.

## 6. Definition of Child

*A child should be paid benefits based on his father's earnings without regard to whether he has the status of a child under State inheritance laws if the father was supporting the child or had a legal obligation to do so.*

Under present law, whether a child meets the definition of a child for the purpose of getting child's insurance benefits based on his father's earnings depends on the laws applied in determining the devolution of intestate personal property in the State in which the worker is domiciled. The States differ considerably in the requirements that must be met in order for a child born out of wedlock to have inheritance rights. In some States a child whose parents never married can inherit property just as if they had married; in others such a child can inherit property as the child of the man only if he was acknowledged or decreed to be the man's child in accordance with requirements specified in the State law; and in several States a child whose parents never married cannot inherit his father's intestate property under any circumstances. As a result, in some cases social security benefits must be denied even where a child is living with his mother and father in a normal family relationship and where neither the child nor his friends and neighbors have any reason to think that the parents were never married.

The social security program is national in scope, covering the worker without regard to the State in which he resides, and the program is intended to pay benefits as a partial replacement of lost support to those relatives of the worker who normally look to him for support. The Council believes that in such a program whether a child gets benefits on the earnings record of a person who has been determined to be his father and who has an obligation to support him should not depend on whether he can inherit that person's intestate personal property under the laws of the State in which the person happens to live.

There is precedent in the veterans' laws for paying benefits to children who do not meet the definition of "child" under State law. Under the veterans' program the child of a veteran may get benefits regardless of State law if the veteran had acknowledged the child in writing, or had been ordered by a court to contribute to the child's support, or before his death had been judicially decreed to be the child's father, or is shown by other satisfactory evidence to be the child's father. The Council believes that a similar provision should be included in the social security program.

## Disability Benefits

Disability insurance is the newest part of the social security program, having been established by amendments enacted in 1954 and 1956. Since then, this part of the program has been improved by providing benefits for the dependents of disabled workers and by extending disability protection—as the original provisions did not—to workers at all ages. As a result it has played a growing role in meeting the needs of the disabled. The Council believes that this development should continue as experience with the program grows, and recommends that two improvements be made at this time.

The Council recognizes that there is ground for considering still other changes in the program, since there are many totally disabled people who face the prospect of having their resources depleted during periods when they are not eligible to receive benefits under either private plans or the social security system. The Council is aware that such consideration will be enhanced by several studies now in progress or being planned by the Social Security Administration which will produce additional information on, for example, the characteristics of applicants who are denied social security disability benefits, the income and other financial resources of severely disabled people, and the extent to which social security disability beneficiaries are dependent upon public assistance. The Council believes that these studies may point up the need for further consideration of proposals to eliminate gaps in the protection now afforded totally disabled people.

### 7. Young Disabled Workers

*Young workers who become disabled should have their eligibility for benefits determined on the basis of a test of substantial and recent employment that is appropriate for such workers.*

Under present law, in order to be eligible for disability benefits, a worker must meet a requirement of 5 years of work in the 10-year period before he became totally disabled. This requirement assures that the benefits will be paid only to people who have both substantial and relatively recent employment. However, the effect of the 5-years-of-work requirement on a worker disabled while young is to make it difficult, or even impossible, for him to get disability benefits. For example, the worker who becomes totally disabled at age 25 and who started to work at age 21 has a total of only

4 years of covered work and therefore cannot meet the requirement.

The restriction of disability insurance protection to workers who have had substantial and recent employment can be achieved for younger workers by an alternative provision under which a worker disabled before age 31 would be eligible for benefits if he had been in covered work for at least one-half of the period between age 21 (the age from which fully insured status is figured under present law) and the point in time at which he became disabled, or, in the case of those becoming disabled before age 24, for at least one-half of the 3 years preceding disablement.<sup>32</sup>

This provision would be somewhat similar to a provision now in the law under which the survivors of a worker who died while young can qualify for benefits even though he had only a short period of covered work.

## 8. Rehabilitation of Disability Beneficiaries

*The social security program should pay the costs of rehabilitation for disability beneficiaries likely to be returned to gainful work through such help, with the rehabilitation services being provided through State vocational rehabilitation agencies.*

Disability insurance beneficiaries show less potential for rehabilitation than people who, though disabled, do not meet the strict definition of disability in the social security law. Because the beneficiaries have less potential, rehabilitation services for them may be given a relatively low priority by the State vocational rehabilitation agencies, and because of limitations on funds and therefore on the extent of services that can be offered by the agencies, some beneficiaries who could profit from rehabilitation services do not get them.

The Council believes that those disability beneficiaries who can reasonably be expected to be returned to gainful employment through rehabilitation services should get such services. Increasing the number of disabled workers who are rehabilitated would benefit not only the people involved but also society in general. For the rehabilitated

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<sup>32</sup> Under this proposal, a worker who becomes disabled before attaining age 24 would have to have been in covered work 1½ years in the 3-year period before he became disabled; a worker who became disabled after age 24 and before age 31 would have to have been in covered work half the time after age 21 and before becoming disabled; and a worker who becomes disabled after age 31 would, just as under present law, have to have been in covered work for 5 out of the 10 years before he became disabled.



## 10. Retirement Test

*The provision in the law that prevents the payment of benefits to a person with substantial earnings from current work—the retirement test—is essential in a program designed to replace lost work income and should be retained.*

The purpose of social security benefits is to furnish a partial replacement of earnings which are lost to a family because of death, disability, or retirement in old age. In line with this purpose the law provides that, generally speaking, the benefits for which a worker, his dependents, and his survivors are otherwise eligible are to be withheld if they earn substantial amounts.

If benefits were paid without a test of retirement, the cost of the program would be substantially increased and the combined additional contributions which would have to be paid by employers and employees to support the provision would amount to nearly 1 percent of covered earnings. In 1964 about \$2 billion in additional benefits would have been paid, and most of this money would have gone to those who are working full-time and generally earning as much as they ever did. The great majority of the older people who are eligible for benefits—those who are unable to work, those who can do some work but cannot earn more than \$1,200 a year, and those who are aged 72 and over and therefore no longer subject to the test—would not be helped by elimination of the test. Indeed they might be hurt; the increased cost might well stand in the way of improvements which *would* be of help to them. Thus if the concept of partially replacing work income lost through retirement were dropped and a straight annuity concept adopted, the costs would be incurred mostly to pay benefits to those fortunate older people with regular jobs at the expense of all the rest.

The test of retirement is essential to implement the purpose of the program—insurance against the loss of earned income. It is not to be confused with a test of individual need or income. The Council believes it is of the greatest importance that benefits continue to be paid without regard to the nonwork income or assets of the beneficiary. Only by paying benefits without regard to nonwork income can the program continue to sustain the motivation of the individual to save on his own and to buy private insurance. Only in this way can the partnership of social security with private pen-

sion plans be continued. Moreover, it is the absence of any test of need or income that, together with the concept of earned right, gives the program its distinctive character as a program of self-support and self-reliance.

The Council has not only considered the desirability of retaining the test of retirement, but has evaluated various alternative ways of liberalizing the test. The Council recognizes that the present test does discourage some people who are retired from their regular jobs from earning as much as they could, or would like to, in part-time or irregular employment. Because only \$1 in benefits is withheld for each \$2 of earnings between \$1,200 and \$1,700, additional earnings always mean more total income from benefits and earnings up to that point, but above \$1,700, a person loses \$1 in tax-exempt benefits for each \$1 of taxable earnings. Because his earnings are reduced by the amount of income tax he must pay, while the benefits he foregoes would not have been taxable, he may be worse off financially as he earns more. Even those who, because of extra exemptions or extraordinary medical expenses, for example, do not have any income tax liability may be worse off financially because they must pay the social security tax on their earnings and because of expenses connected with working.

If the limit on the span of earnings to which the \$1-for-\$2 adjustment applies were raised, people would not be faced with a financial deterrent to earning somewhat more than \$1,700 a year, and there would be relatively little increase in the cost of the program.

On the other hand, if the limit were extended very far and at the same time the benefit formula were liberalized and the benefit and contribution base raised as the Council recommends, people would be able to earn quite high amounts and still get some benefits. For example, if the present \$1,700 figure were extended as far as \$3,000 (and if the benefit increases recommended by the Council were adopted) a person getting benefits for himself and his wife based on average earnings of \$6,000 a year would be able to earn \$5,000 and still get some benefits. And such a substantial liberalization of the test would increase substantially the number of people who could keep on working at their regular jobs and get benefits.

On balance, while the Council does not recommend any change in the retirement test, it believes that if nevertheless a change were to be made it would be best to go a limited way in the direction of extending the \$1-for-\$2 band.

## Extending the Coverage of the Program

Practically all working people are now covered by social security. At any given time the employment of nearly 9 out of 10 people in the paid labor force is covered. Of the employment which is not covered, about one-half is that of governmental employees—Federal, State and local—almost all of whom are covered under governmental staff retirement systems. Almost two-fifths of the employment not covered is that of people who work irregularly—part-time household and farm work performed by people (in many cases housewives, school children, or retired persons) who do not meet the relatively low earnings tests required for coverage in these employment areas, or self-employment by people who earn less than \$400 in a particular year. The other major exclusion is self-employment in the practice of medicine. Approximately 170,000 doctors have their self-employment earnings in the practice of medicine excluded from coverage. In addition, a very substantial part of the work income of one group of covered workers, those who customarily receive tips in the course of their employment, is not subject to tax nor creditable toward benefits, and as a consequence, the social security protection of these workers is inadequate.

The changes in the coverage provisions of the program which the Council recommends would extend coverage to the self-employment earnings of physicians, provide social security protection for Federal employees when they are not eligible for civil service retirement benefits, facilitate the coverage of additional State and local government employees, and provide social security credit for tips.

To the extent feasible, everyone who works should be covered by the social security program. Every occupational group contains substantial numbers of people who at one time or another will need the protection of the program and it is impossible to foresee, over the course of a lifetime, who will and who will not have this need. Moreover, all Americans have an obligation to participate, since an effective social security program helps to reduce public assistance costs, and reduced public assistance costs mean lower general taxes. There is an element of unfairness in a situation where practically all contribute to social security while a few profit from the tax savings but are excused from contributing to the program.

It is essential that the coverage of the program remain on a compulsory basis. If coverage were voluntary, the program could not effectively carry out its purpose of providing basic protection for all. The improvident would not be inclined to elect coverage.



Many workers who have great need for protection and limited opportunity to acquire it through private means—low-income workers, workers with large families and workers in poor health—would choose not to pay social security contributions because of pressing day-to-day needs. Moreover, permitting individual voluntary coverage would increase program costs and give those allowed such coverage an unfair advantage over workers who are covered on a compulsory basis.

Social security was designed to operate under a benefit structure which would protect all Americans and their families regardless of the worker's age, the size of his family, or any other factor which might make the value of the protection high in relation to the worker's own contributions. Because social security is financed in part by employer contributions, it can provide in virtually all cases protection worth more than the employee contributions and still take care of the higher-cost risks, such as older workers and workers with large families (where the protection provided may be much more valuable than the contributions). This type of benefit structure, which is highly desirable from the standpoint of enabling the program to accomplish its goals, is practical only under compulsory coverage. Only through compulsory coverage can there be assurance that those covered will include not only the high-cost risks but also the lower-cost risks. And only in a system that provides for compulsory coverage of employees is it reasonable to require employer contributions to help finance the benefits. If employees could choose to be covered or not to be covered by social security, employers would have good grounds for resisting any requirement that they pay contributions on the earnings of those employees who elected not to participate. It would not be practical, on the other hand, to require an employer to contribute with respect to only those of his employees who elected coverage. Aside from the constitutional question of whether a tax can be imposed on one party as a result of a voluntary choice of another, such a provision would create an undesirable economic incentive to employ workers who chose not to be covered.

The only provision now in the program for individual election of coverage is that applying to ministers, and the general objections to voluntary coverage have been borne out in the experience with this provision. Coverage has been elected by a large proportion of those ministers who are approaching retirement age—ministers who can confidently expect a large return for their social security con-



tributions. On the other hand, the proportion of younger ministers who have elected coverage is not nearly as large. Thus the net effect on the trust funds is unfavorable in comparison with the cost of the general compulsory coverage of the program.<sup>36</sup> The Council strongly recommends against adoption of any changes that would make social security coverage voluntary for additional groups.

The Council is not recommending any changes in the minimum earnings required for coverage of work in household and farm employment and self-employment. There are difficult administrative problems in such changes and, although in general the results would be desirable, there are also some drawbacks. A large proportion of the people who would be brought into coverage by a lowering of the minimum earnings requirements would be short-term or casual workers, such as housewives and school children working as local seasonal labor in agriculture, who ordinarily are not in the labor force and are already protected as dependents of covered workers. The Council recognizes that as earnings levels rise there is an automatic increase of the coverage of people engaged in the kinds of work which are subject to the minimum-earnings requirements, and considers the additional coverage which will gradually arise in the future from this process desirable.

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<sup>36</sup> There have been repeated extensions of the time limit specified in the law for ministers to elect coverage, thus increasing the original advantage ministers were given and the unfavorable effect on the trust funds, since a minister who first did not choose to be covered may later—if he marries and has a family, for example—decide that coverage would be to his advantage, while one who has no dependents may continue to stay outside of the program.

The Council is not now recommending any change in the coverage provisions for ministers. While the Council believes there are better methods of covering ministers, the improvements it has considered tend to be offset by the problems created by a drastic change from a method which has been known and used over a number of years. The Council recommends that the Social Security Administration explore further whether it would be feasible to change to a plan under which ministers employed by churches or other nonprofit organizations would be covered as employees, and to develop methods of minimizing the transitional problems. The Council believes that any coverage of ministers on this basis should be at the option of the nonprofit employer, and that the church or other employer should be able to provide social security coverage for lay employees and not for ministers if it chose to do so. If a church decides to cover its ministers, its current minister (or ministers) could choose to continue to be excluded from coverage, but any minister employed in the future would be covered.

## 11. Doctors of Medicine

*Self-employed doctors of medicine should be covered on the same basis as other self-employed people now covered, and interns should be covered on the same basis as other employees working for the same employer.*

Self-employed physicians, numbering about 170,000, are the only professional group whose self-employment income is not covered under social security. The Council sees no reason why this discriminatory treatment should be continued. There are no technical or administrative barriers to the coverage of doctors. Nor is there any question that many doctors have a need for coverage as great as that of other professional self-employed people. A provision for covering self-employed doctors was approved by the House of Representatives in 1964.

Apparently physicians have been excluded up to now because spokesmen for the profession have indicated opposition to coverage. The Council believes that the wishes of a particular group are not a sufficient basis for the continued exclusion of the group. Social security is not only a mechanism in which a person participates because of the benefits he as an individual expects to receive. It is an institution through which all Americans together promote economic security by financing, from the contributions of all, a continuing income to families whose earnings are cut off by the old age, death, or disablement of the worker. Physicians, like all other Americans, benefit in general tax savings and in other ways from the prevention of dependency through social security. Like other Americans, they should share in its support. In fact, failure to cover the self-employment income of physicians has the effect that many of them have an unfair advantage under the program, since it is possible for them to acquire insured status through working for a time in covered employment, and then, because those who do so have low average monthly earnings under the program, they get the advantage of the weighted benefit formula that is intended for low-income people. Thus many of those who do qualify get a very large return in relation to the contributions they pay, in comparison with self-employed people who spend all of their working lifetimes in covered work.

The present exclusion from social security coverage of interns employed by hospitals is closely related to the exclusion of self-employed physicians. The Council believes that when self-employed physicians are covered, coverage should be extended to

interns on the same basis as that on which coverage is now made available to other employees of hospitals.

## 12. Tips

*Social security contributions should be paid on tips an employee receives from a customer of his employer, and tips should be counted toward benefits.*

More than a million employees now covered under the social security program have an important part of their income from work excluded from coverage because it is received in the form of tips.<sup>37</sup> The Social Security Administration has estimated that the amount of tips received by employees who regularly receive tips is more than \$1 billion a year. Tip income is estimated to represent, on the average, more than one-third of the work income of regularly tipped employees; in many cases, of course, tips represent a much larger part, or even all, of the employee's income. For example, a waiter in a large city may get only \$35 a week in wages and may average another \$55 a week in tips.

Under present law, with only his wages counted toward benefits, the waiter who gets \$35 a week in wages and \$55 a week in tips would receive a monthly retirement benefit, beginning at age 65, of \$74. If his tips were also covered, his benefit amount would be \$125. Because their tips are not counted toward benefits, tipped employees are not adequately protected under the social security program. Moreover, since tipped workers pay income tax on earnings they get in the form of tips, it seems particularly unfair to them that these earnings are not counted for social security purposes. This situation should be corrected.

Since tips received by an employee from a customer of his employer are given for services performed in an employment relationship, they should, to the extent possible, be credited to the employee's social security account in the same way that his wages are credited. This would mean that both the employee and the employer would pay their share of the social security taxes on tips, and the employer would report the tips along with the wages he pays the employee.

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<sup>37</sup> Tips an employee receives directly from someone other than his employer are covered for social security purposes only if the employer requires an accounting of the tips. Very few tips are covered on this basis. Tips received by self-employed persons are covered in the same way as other types of self-employment income.

The Council recognizes that there are difficulties in requiring the employer to report and pay taxes on his employees' tips, since the amount of tips that would have to be reported may not be readily determinable by the employer. The Council believes, however, that most of the difficulties for employers can be overcome if they are not held responsible for reporting and paying taxes on tips that the employee was required to report but did not. A plan for covering tips on this basis was approved by the House of Representatives in 1964.

The Council is aware that some employers have argued that they should not be required to pay social security taxes on their employees' tips because they cannot count tips in determining whether they meet the requirements of minimum wage laws. The Council has been informed, however, that of the States in which tipping occupations are covered by operative minimum wage laws, only 14 make no allowance for tips. It does not seem reasonable to argue that the fact that tips are not counted toward the minimum wage in 14 States should preclude Federal action to count tips under the basic social security system. As a practical matter, Federal legislation requiring employees to report their tips to their employers for social security credit would help to remove a major obstacle to counting tips toward the minimum wage.

### **13. Federal Employees**

*Social security credit should be provided for the Federal employment of workers whose Federal service was covered under the civil service retirement system but who are not protected under that system at the time they retire, become disabled, or die.*

Unlike almost all private pension plans and a high proportion of State and local retirement systems, the Federal civil service retirement system is not supplementary to the social security program. Thus when a person leaves Federal employment, his years of previous Federal service do not count toward social security benefits. Moreover, protection under the civil service retirement system does not start until after 5 years of Federal employment. As a result, although the civil service retirement system provides good protection for people who stay in Federal employment, Federal workers who leave, or those who die or become disabled before having worked for the Government for 5 years, may have inadequate pro-



tection or none at all under either civil service retirement or social security.

A practicable and relatively inexpensive way of filling the most serious gaps that result from this situation is to provide for social security credit for the Federal employment of those workers who are not protected under the civil service system at the time they retire, become disabled, or die. As part of the financing arrangement, the civil service retirement system would withhold, from the returns of contributions that are made from the civil service retirement system to separating employees, amounts equal to the social security employee contributions which would have been payable if their Federal work had been covered under social security. These withholdings would be transferred to the social security fund and additional financial adjustments made between the two systems to take account of the transfers of credit.

The plan includes the following principal elements, all of which the Council considers essential to its effective operation:

1. Credit would be transferred to social security for the Federal service of individuals who die, become disabled, or separate from work covered under the civil service retirement system after less than 5 years of Federal service. (At present, the only provision made where a person with less than 5 years of service dies or terminates his employment is for a refund of employee contributions.)
2. Credit would be transferred to social security for the Federal service of people who separate after 5 or more years of Federal work and obtain refunds of their contributions to the civil service retirement system. (The civil service retirement system does not provide any protection for people who separate from the civil service and take refunds.)
3. Former civil service employees who have not taken refunds of their civil service contributions and who die or who become disabled before age 62 could have credit for their Federal service transferred to social security. (Former employees do not have disability or survivorship protection under the civil service retirement system after separation.)

This transfer-of-credit approach would forego certain advantages which would be achieved by a straight extension of social security coverage. For example, an extension of social security

coverage would provide superior protection for workers who become disabled or die relatively early in their careers. However, the transfer-of-credit approach the Council is suggesting would be considerably less costly for the Federal Government than a straight extension of social security coverage. Equally important, whereas an extension of social security coverage would require substantial modification of the civil service retirement system to take account of social security benefits and contributions, no modifications would be required to carry out the Council's recommendation except for the financing of the transfer of credits.

#### **14. State and Local Government Employees**

*The coverage of additional State and local government employees should be facilitated by making available to all States the option of covering only those present members of State and local government retirement system groups who wish to be covered, with coverage of all new members of the group being compulsory. Also, policemen and firemen in all States should be provided the same opportunity for coverage as other State and local government employees.*

The provisions of present law which make social security coverage available to employees of States and their political subdivisions under voluntary agreements between the States and the Federal Government have proved generally effective in an area of employment where, by reason of constitutional barriers against Federal taxation of the States, compulsory coverage has not seemed feasible. About 7 out of 10 full-time State and local government employees are now covered under social security, and about three-fourths of those covered have supplemental protection under a staff retirement system.

Although the present approach to coverage of State and local government employment has been effective, the Council believes that improvements can and should be made within the existing framework. Over the years a number of special provisions, each applying only to a State or States named specifically in the law, have been enacted. Special provisions not only complicate administration but result in inequalities of treatment as between different groups in similar employment situations—inequalities which are inappropriate in a national social insurance system. In the main, these inequalities arise under provisions which permit a number of States

named in the Federal law much greater latitude in bringing retirement-system members under social security than is permitted other States.

In all but 18 States, which are named in the law, coverage is available only by means of a referendum among members of any retirement-system group for which social security coverage is contemplated; if a majority of the members vote for social security coverage, all members of the group are covered. The 18 States named in the law are permitted to use either the referendum procedure or an alternative known as the "divided-retirement-system" provision. Under this alternative, the 18 States may extend social security coverage to only those current members of a retirement-system group who desire such coverage, with coverage being required for all employees who later become members of the retirement-system group. The requirement that all future members of the group must be covered under social security protects the social security trust funds against continuing adverse selection.

Making the divided-retirement-system procedure generally available would make it possible for a State to provide in an orderly way for the protection of future members of retirement-system groups on a coordinated basis.

Under another provision all but 19 States (named in the law) are prohibited from providing social security coverage for retirement-system groups made up of policemen and firemen. The Council sees little justification for the prohibition. There are strong reasons why policemen and firemen should be covered under staff retirement systems in addition to social security because the benefits of staff retirement systems can be tailored to meet their special needs. However, their arduous and dangerous duties make the survivor and disability protection of social security particularly valuable to policemen and firemen. Their own systems are often seriously deficient in providing survivor protection, and their over-all disability and retirement protection, like that of other State and local government employees, could be improved considerably if they were covered under both the basic social security program and a supplementary staff-retirement system.

Some organizations of policemen and firemen that have opposed social security coverage for their members have expressed fear that their State or local government systems would be curtailed, or perhaps abandoned, if social security coverage were obtained. The Council is impressed, though, by the fact that the extension of social security protection to millions of State and local government

workers who are under staff-retirement plans has given rise to no instances, to the knowledge of the Council, where there has been a reduction in over-all protection.

The Council supports the policy declaration of the Congress contained in the present social security law, which states that there should be no impairment of the protection of members of a State or local government retirement system by reason of the extension of social security coverage to employment covered by the system.



## Meeting the Cost of the Changes Recommended

The increase in the contribution and benefit base and the extensions of coverage recommended by the Council will decrease the cost of the program relative to taxable payroll. On the other hand, the benefit liberalizations recommended by the Council will increase the cost of the program relative to taxable payroll.<sup>38</sup> On balance, the changes recommended by the Council would require a somewhat higher ultimate contribution rate than does present law. The following table summarizes the cost effects of the Council's recommendations and the actuarial status of the program under those changes, exclusive of hospital insurance. These matters are discussed in detail in Appendix B, "Actuarial Cost Estimates for the Council's Recommendations."

### ACTUARIAL BALANCE UNDER THE COUNCIL'S PROPOSALS TO MODIFY THE CASH-BENEFIT PROVISIONS

(Costs expressed as a percentage of taxable payroll according to intermediate-cost estimate)

	<i>Page of Council's Report</i>	<i>OASI</i>	<i>DI</i>	<i>Total</i>
Level-Cost of the Benefits of the Present Program.....	....	8.46	0.63	9.09
Level-Cost Effect of Changes:				
\$6,000-7,200 Contribution and Benefit Base.....	22	-.55	-.04	-.59
Revised Basis for the Self-Employed Contribution Rate.....	24	+.13	+.01	+.14
Extensions of Coverage.....	74	-.05	.....	-.05
Age-62 Computation Point for Men...	56	+.10	.....	+.10
Benefits for Disabled Widows.....	66	+.05	.....	+.05
Child's Benefits to Age 22 if in School..	64	+.09	+.01	+.10
Liberalized Definition of "Child" for Child's Benefits.....	67	+.01	.....	+.01
Special Disability Insured Status at Ages 30 and Under.....	68	.....	+.02	+.02
Rehabilitation of Disability Beneficiaries.....	69	.....	.....	.....
Increase in the Maximum Lump-Sum Death Payment.....	63	+.02	.....	+.02
Revised Benefit Formula.....	58	+1.15	+.09	+1.24
Level-Cost of Proposed Program.....	....	9.41	.72	10.13
Level-Equivalent of Contribution Schedule..	....	9.42	.75	10.17
Actuarial Balance.....	....	+.01	+.03	+.04

<sup>38</sup> The supplementary views of one member on this subject appear in Appendix A.

The recommended schedule outlined below would finance the Council's recommendations discussed in Part III and would carry out the financing principles discussed in Part I. Under the proposed schedule, the rates, beginning in 1966, would increase at 5-year intervals until the full rates scheduled are reached in 1976. The 1971 rate of 4.7 percent would be about sufficient under the low-cost estimates to cover the cost of the improved cash-benefit program for the next 75 years. Whether the final scheduled rate of 5.3 percent should actually be put into effect in 1976 as scheduled should depend on conditions existing at that time and on expected conditions over the ensuing 15 to 20 years. Contribution rates for hospital insurance are discussed separately, on p. 45 in Part II.

<i>Period</i>	<i>Contribution Rates</i>			
	<i>Employee and Employer, Each</i>		<i>Self-Employed</i>	
	<i>Present Law</i> <sup>1</sup>	<i>Recommended</i> <sup>2</sup>	<i>Present Law</i> <sup>1</sup>	<i>Recommended</i> <sup>2</sup>
1965	3.625	3.625	5.4	5.4
1966-67	4.125	4.3	6.2	5.8
1968-70	4.625	4.3	6.9	5.8
1971-75	4.625	4.7	6.9	6.0
1976 and after	4.625	5.3	6.9	6.3

<sup>1</sup> Applicable to annual earnings up to \$4,800.

<sup>2</sup> Would apply to annual earnings of \$4,800 in 1965, \$6,000 in 1966 and 1967 and \$7,200 in 1968 and thereafter.



## Other Findings

In accordance with its mandate to study and report its findings with respect to all aspects of the program the Council has considered a number of matters which are worthy of comment but which do not, at least at this time, call for recommendations for changes in law or policy.

### **Simplification of the law**

The Council believes that it is important that complexities in the social security law be avoided to the extent that this is possible. Therefore, the Council recommends that a complete re-examination of the Act be conducted by the technical experts of the Social Security Administration and the Congress, and that considerable weight be given to simplification of the law even where this involves deliberalization for rare and special cases. The Council has been informed that much work looking toward an eventual simplification and recodification of the law has already been carried on in the Social Security Administration, and the Council urges that this work be pressed to a successful conclusion.

### **Public information activities**

The Council strongly endorses the Social Security Administration's program of wide public dissemination of information about social security. In its formal statement of operating objectives and in its day-to-day administration of the social security program, the Social Security Administration recognizes the importance of an effective public information system. People need to be informed so they can act to secure their rights under the law and discharge their obligations under the law. They need to know ahead of time what rights they have. Security is not only a matter of getting benefits when they are due but of being conscious ahead of time that the protection is there. The responsibility of safeguarding the rights of every individual covered by the program and of providing the full measure of service to which he is entitled can be discharged



more economically, as well as more effectively, with the help of a good public information program.

## **Confidentiality of records**

The Council has been made aware of the interest of some groups in changing the social security law, or in getting a broader application of the authority of the Commissioner to disclose information under present law, so that information from the records of the Social Security Administration would be available for a wide variety of purposes not related to the social security program. The Council believes that maintenance of the existing restrictions on the use of the personal and private information that has been furnished to the Social Security Administration with the understanding that it will be used only for administering the social security program is essential to protect the right to privacy of employers and all those covered under the program. Moreover, if all persons could not count on the information being kept confidential, some would have an incentive to obtain social security numbers under assumed names or would submit other incorrect data. The Social Security Administration must depend on public cooperation for the effective administration of the program. Inaccurate or incomplete information would threaten the integrity of the records and result in serious problems of administration, including the payment of incorrect benefits and the incurring of increased costs.

The Council endorses the restrictions on disclosure of confidential information prescribed by the social security law and the limited exceptions permitted under Regulation No. 1 of the Social Security Administration, including the special restrictions on disclosure of medical information obtained in connection with claims based on disability. While the Council recognizes that many of the purposes for which information is requested are worthwhile, it is convinced that the Social Security Administration should nevertheless maintain the strict confidentiality of the social security records.

## **Social security benefits and workmen's compensation**

In some cases, disability benefits or survivors' benefits may be paid by both the social security program and a State workmen's

compensation program, each program's payment being made without regard to the payment being made under the other program. The Council recognizes that in these dual entitlement cases the combined benefits of the two programs may occasionally be excessive when measured against previous earnings. At present the volume of these situations is not large but the number of cases where combined payments may be excessive in relation to previous earnings can be expected to increase somewhat in the future. Moreover, the issue is not entirely a matter of volume; it would be desirable to prevent any excessive payments resulting from dual entitlement to whatever extent they may occur.

For these reasons the Council has examined various possible ways of meeting the overlap problem through Federal action. None has seemed satisfactory to the great majority of the Council members. Effective administration of a reduction of social security benefits where workmen's compensation is payable would be very difficult to achieve, and the withholding of a contributory benefit because of payment by another system would be hard to defend. The majority of the Council believe that if any adjustment is made it should be made by the workmen's compensation system in those cases where the State considers the combined benefit amount to be too high.

The Council understands that a cooperative study of dual entitlement cases is now being considered by the Social Security Administration and State workmen's compensation agencies. Such a study, the Council believes, would provide worthwhile additional information about the overlap and its effects and might suggest new and better ways of dealing with the problem.

## Administration of the social security program

The effectiveness of any law depends, in large part, on how good a job is done by those responsible for carrying it out; a law is only as good as its administration.

From our own observations and from the evaluations of others, we believe that the huge task of administering the social security program, a task which involves the rights of many millions of people and the payment of billions of dollars a year, is being handled effectively and efficiently.

Administrative costs have been kept down to only 2.2 percent of benefit payments, partly as a consequence of the use of the latest in methods and machinery. This low administrative cost, however, has not been achieved by sacrificing high-quality service to the public. Employees at all levels have combined efficient performance of duties with responsiveness to the public and a friendly and sympathetic concern for the aged, the disabled, and the widows and orphans who are the program's beneficiaries.

We should like to register our belief that accomplishment of the purposes of the social security program requires that this high quality of administration—nonpartisan and professional—be continued.

## Conclusion

The Council believes that the adoption of the recommendations made in this report will increase markedly the effectiveness of social insurance as a method for providing security to the American family when income is cut off in old age or by total disability or death. Moreover, adoption of these recommendations will make sure that the existing social security program will continue on a financially sound basis and that the proposed extension of the social insurance principle to cover hospital insurance for the aged and the permanently and totally disabled will be soundly financed.

The Council has no thought that the changes herein recommended will be the final step in the development of the American social security program. In the opinion of the Council, the proposed changes would do no more than make improvements that are clearly indicated by experience with the social security program up to the present time. Consequently, the Council urges that every 5 years or so Advisory Councils be formed to review the substantive provisions of the program as well as its financing.

The Council believes that social insurance is an institution that is basic and vital to the economic security of almost every American family, and that because of its great importance it must be constantly re-examined and brought up to date. The fulfillment of the promise of social security for the American worker and his family which was implicit in the original Social Security Act will depend on continuing wisdom and alertness to make sure that our use of the social insurance mechanism to combat insecurity among our people is adapted to changing needs and conditions inherent in our dynamic society.





## Appendix A

### Statement of Reinhard A. Hohauser on Part II, "*Hospital Insurance for Older People and the Disabled*"

The issues posed by this section of the Report are quite complex and far reaching in their impact. Extensive experience and studies in both private and social insurance lead me to take exception to the basic recommendation made in Part II. In short, I believe the analysis and the proposals contained in this part of the Report should be regarded as primarily a useful means of fostering discussion as to what might be the most appropriate ultimate moves. My reasons for these reservations are summarized briefly below.

This proposal to provide social insurance to pay for hospital care and certain related medical services for older people and the disabled differs profoundly from our system of paying cash benefits to beneficiaries under social security. I believe the proposal and its implications should be examined and evaluated more thoroughly before any final conclusions are reached.

The Report recognizes quite correctly that more is involved here than inpatient care in hospitals. It also acknowledges that some flexibility is needed in providing medical care benefits; this need is reflected by its proposals for benefits that would help pay the cost of certain outpatient services and of home nursing care. There are many uncertainties, however, as to what collateral effects the covered services would have on other medical services.

We are not dealing with matters that are fixed or stable, but rather with conditions that have been changing rapidly and will continue to change. We know that the availability of voluntary insurance and prepayment plans has already had marked effect on the utilization of hospital facilities. With this have come very serious financial questions. While the matter of cost is exceedingly important, we also need to know much more clearly where any initial move is likely to lead, so we can better judge whether the direction indicated is a desirable path to take.

I have long been a strong supporter of the principles that have been incorporated in our social security program. I am also strongly

inclined toward principles which advocate harmonizing voluntary efforts with Governmental measures, such as the Report endorses. Unquestionably, further evidence must be developed as to whether or not this kind of partnership can be accomplished effectively by the procedure proposed in the Report.

In the formulation of the proposals contained in the Report, not enough recognition has been given to the rapid growth and present scope of voluntary insurance for older people. Instead of supplementing existing plans which have won wide public acceptance, the proposal might lead to adverse consequences. Before moving into this area the potential economic and social consequences should be weighed at greater length than has been done. In like manner, the consequences of alternative measures must also be considered before final conclusions are reached.

Much progress has been made in better identifying the issues for objective consideration and appraisal. The Report contributes substantially toward that end, especially in its recognition that hospital care is but one, though an important, area of medical care. It also recognizes that in many cases care may be required far beyond the limited period of hospital care suggested in the proposal.

Where the range of need among the aged is so great, it is especially important to make certain that any aid provided through Government is utilized most effectively and in a manner that truly advances the health and welfare of all our citizens.

Further comments on the cost of the proposal on hospital insurance are given below.

#### Statement of Reinhard A. Hohaus on the cost of the changes recommended in Parts II and III

The Report expresses concern about the impact of the recommended financing provisions on our economy and the taxpayers, in both the short run and in the long run. It asks, in effect, that the necessary taxes be such that they can be borne "by the employee, employer and the self-employed without undue burden or strain".

One of the major findings in the Report is:

"The maximum amount of annual earnings that is taxable and creditable toward benefits needs to be substantially increased in order to maintain the wage-related character of the benefits, to restore a broader financial base for the program and to apportion the cost of the system among

low-paid and higher-paid workers in the most desirable way."

I agree with that recommendation.

The table on page 84 estimates the "level-cost of the benefits of the present program" at 9.09 percent of taxable payroll under a \$4,800 earnings base. The table also estimates that if this taxable base is increased from \$4,800 to the \$6,000—\$7,200 base recommended in the Report and if the present benefit formula is extended to the new base, the level-cost would be .59 percent of taxable payroll lower. Stated another way, a liberalization costing that percentage of the new taxable payroll would not change the present level-cost of 9.09 percent of taxable payroll.

However, if all of the Council's proposals [Parts II and III] are enacted, the level-cost will increase to 10.13 percent of taxable payroll with respect to the recommendations of Part III, and with the level-cost of .90 percent of taxable payroll with respect to the recommendations of Part II (see page 51), there would be a total level-cost of 11.03 percent of taxable payroll. This would be an increase of about 21 percent above the level-cost of 9.09 percent of taxable payroll applicable to the present program.

An increase of this magnitude, in addition to an increase in the maximum earnings used for determining taxable payrolls, warrants serious scrutiny and public discussion. The cost of adopting all of the recommendations raises important questions as to priority in the distribution of our economic resources.



# Appendix B

## ACTUARIAL COST ESTIMATES FOR THE COUNCIL'S RECOMMENDATIONS

(Prepared by Robert J. Myers, Chief Actuary, Social Security Administration)

This appendix first discusses various matters relating to the actuarial cost estimates (such as the underlying assumptions and methodology) and then presents the results of these estimates.

### A. CONCEPT OF ACTUARIAL BALANCE OF SYSTEM

The concept of actuarial balance as it applies to the old-age, survivors, and disability insurance system differs considerably from this concept as it applies to private insurance and private pension plans, although there are certain points of similarity with the latter. In connection with individual insurance, the insurance company or other administering institution, in order to be in actuarial balance, must have sufficient funds on hand so that if operations are terminated, it will be in a position to pay off all the accrued liabilities. This requirement, however, is not necessary for a national compulsory social insurance system. It might be pointed out that well-administered private pension plans have sometimes not funded all their liability for prior service benefits.

It can reasonably be presumed that, under Government auspices, such a social insurance system will continue indefinitely into the future. The test of financial soundness, then, is not a question of whether there are sufficient funds on hand to pay off all accrued liabilities. Rather, the test is whether the expected future income from tax contributions and from interest on invested assets will be sufficient to meet anticipated expenditures for benefits and administrative costs. Thus, since the concept of "unfunded accrued liability" does not by any means have the same significance for a social insurance system as it does for a plan established under private insurance principles, it is quite proper to count both on receiving contributions from new entrants to the system in the future and on paying benefits to this group. These additional assets and liabilities

must be considered in order to determine whether the system is in actuarial balance.

The question of whether the old-age, survivors, and disability insurance program is in actuarial balance depends upon whether the estimated future income from contributions and from interest earnings on the accumulated trust fund investments will, over the long run, support the disbursements for benefits and administrative expenses. Obviously, future experience may be expected to vary from the actuarial cost estimates made now. Nonetheless, the intent that the system be self-supporting can be expressed in law by utilizing a contribution schedule that, according to the intermediate-cost estimate, results in the system being in balance or substantially close thereto.

The congressional committees concerned with the program have expressed the belief that it is a matter for concern if any portion of the old-age, survivors, and disability insurance system shows any significant actuarial insufficiency. Traditionally, the view has been held that for the old-age and survivors insurance portion of the program, if such actuarial insufficiency when measured over perpetuity has been no greater than 0.25 percent of payroll, it is at the point where it is within the limits of permissible variation. The corresponding point for the disability insurance portion of the system is about 0.05 percent of payroll (lower because of the relatively smaller financial magnitude of this program). Furthermore, traditionally when there has been an actuarial insufficiency exceeding the limits indicated, any subsequent liberalizations in benefit provisions were fully financed by appropriate changes in the tax schedule or through raising the earnings base, and at the same time the actuarial status of the program was improved.

The Council has recommended that long-range costs should be measured over a 75-year period, rather than over perpetuity, and that then the estimated actuarial status of both trust funds should be reasonably close to an exact balance, and much closer than has been the standard in the past. The cost estimates have been made on this basis, with the assumption that, if the estimates show an exact balance, at the end of the 75-year period the balances in the trust funds should approximate 1 year's benefit payments.

#### B. ACTUARIAL STATUS AFTER ENACTMENT OF 1961 ACT

The changes made by the 1961 amendments involved an increased cost that was fully met by the changes in the financing pro-

visions (namely, an increase in the combined employer-employee contribution rate of one-fourth of 1 percent, a corresponding change in the rate for the self-employed, and an advance in the year when the ultimate rates would be effective—from 1969 to 1968). As a result, the actuarial balance of the program remained unchanged from what it was before this legislation.

Subsequent to 1961, the cost estimates were further reexamined in the light of developing experience. The earnings assumption was changed to reflect the 1963 level, and the interest-rate assumption used was modified upward to reflect recent experience. At the same time, the retirement-rate assumptions were increased somewhat to reflect the experience in respect to this factor.

The further developing disability experience indicated that costs for this portion of the program were significantly higher than previously estimated (because benefits are not being terminated by death or recovery as rapidly as had been originally assumed). Accordingly, the actuarial balance of the disability insurance program was shown to be in an unsatisfactory position, and this has been recognized by the Board of Trustees, who recommended that the allocation to this trust fund should be increased (while, at the same time, correspondingly decreasing the allocation to the old-age and survivors insurance trust fund, which under present law is estimated to be in satisfactory actuarial balance even after such a reallocation). As indicated in the main part of this report, the Council concurs with this view. The portion of the combined employer-employee contribution rate that is assigned to the disability insurance trust fund under the recommendations of the Advisory Council is 0.75 percent (see footnote 1, page 14), while for the self-employed contribution rate the corresponding figure is 0.475 percent (based on 0.1 percent above half of the combined employer-employee allocation, which is consistent with the Council's principles on the self-employed rate basis, as is also followed in connection with the hospital insurance proposal).

### C. BASIC ASSUMPTIONS FOR COST ESTIMATES

#### (1) *General Basis for Long-Range Cost Estimates*

Benefit disbursements under old-age and survivors insurance may be expected to increase continuously for at least the next 50 to 70 years because of such factors as the aging of the population of the country and the slow but steady growth of the benefit roll. Similar factors are inherent in any retirement program, public or



private, that has been in operation for a relatively short period. Estimates of the future cost of the old-age, survivors, and disability insurance program are affected by many elements that are difficult to determine. Accordingly, the assumptions used in the actuarial cost estimates may differ widely and yet be reasonable.

The long-range cost estimates (shown for 1975 and thereafter) are presented on a range basis so as to indicate the plausible variation in future costs depending upon the actual trends developing for the various cost factors. Both the low- and high-cost estimates are based on high economic assumptions, intended to represent close to full employment, with average annual earnings at about the level prevailing in 1963. In addition to the presentation of the cost estimates on a range basis, intermediate estimates developed directly from the low- and high-cost estimates (by averaging their components) are shown so as to indicate the basis for the financing provisions.

The cost estimates for old-age and survivors insurance are extended beyond the year 2000, since the aged population itself cannot mature by then. The reason for this is that the number of births in the 1930's was very low as compared with subsequent experience. As a result, there will be a dip in the relative proportion of the aged from 1995 to about 2010, which would tend to result in low benefit costs for the old-age and survivors insurance system during that period. Accordingly, the year 2000 is by no means a typical ultimate year insofar as these costs are concerned.

The cost estimates have been prepared on the basis of the same assumptions and methodology as those contained in the 24th Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund (H. Doc. No. 236, 88th Cong.). These estimates and their underlying assumptions are given in more detail in *Actuarial Study No. 58* of the Social Security Administration.

The underlying assumptions have not been revised, and new detailed cost estimates prepared, because preliminary study indicates that the changes that would be made would be largely counterbalancing from a cost standpoint. For example, lower costs would result from using the higher earnings level of 1964, but higher costs would arise from considering the higher retirement rates of the last few years and other factors. Besides, there is the advantage of consistency and comparability in using the same cost bases for a period of a few years, when no significant net changes in the results would occur.



## (2) *Measurement of Costs in Relation to Taxable Payroll*

In general, the costs are shown as percentages of covered payroll. This is the best measure of the financial cost of the program. Dollar figures taken alone are misleading. For example, a higher earnings level will increase not only the outgo of the system but also, and to a greater extent, its income. The result is that when earnings rise, benefit costs in terms of dollars will also rise, but the cost relative to payroll will decrease.

## (3) *General Basis for Short-Range Cost Estimates*

The short-range cost estimates (shown for the individual years 1965–72) are not presented on a range basis since—assuming a continuation of present economic conditions—it is believed that the demographic factors involved can be reasonably closely forecast, so that only a single estimate is necessary. A gradual rise in the earnings level in the future, paralleling that which has occurred in the past few years, is assumed. As a result of this assumption, even though then all provisions of the system including the earnings base are assumed to remain unchanged in the future at what the Council has recommended, contribution income is somewhat higher than if level earnings were assumed, while benefit outgo under the cash-benefits program is only slightly affected.

Since the long-range cost assumptions do not involve an increasing-earnings assumption, the short-range and long-range cost estimates do not “link up” as between the 1972 data for the former and the 1975 data for the latter. Thus, for the cash-benefits program the balances in the trust funds at the end of 1972 according to the short-range estimates are *higher* than what the long-range estimates would show for that year. On the other hand, for the hospital-benefits program the balance in the trust fund at the end of 1972 according to the short-range estimates is *lower* than what the long-range estimates show for that year (since the hospital benefit costs are assumed to rise as earnings increase—see subsequent discussion).

## (4) *Level-Cost Concept*

An important measure of long-range cost is the level-equivalent contribution rate required to support the system over a long-range future period, based on discounting at interest. If such a level rate were adopted relatively large accumulations in the trust funds would result, and in consequence there would be sizable eventual income from interest. Even though such a method of financing is not followed, this concept may be used as a convenient

measure of long-range costs, which permits comparison of various possible alternative plans, with weight being given to both early-year and deferred benefit costs.

##### (5) *Future Earnings Assumptions*

The long-range estimates are based on level-earnings assumptions at the level prevailing in calendar year 1963. This, however, does not mean that covered payrolls are assumed to be the same each year; rather, they are assumed to rise steadily as the population at the working ages is estimated to increase. If in the future the earnings level should be considerably above that which now prevails, and if the cash benefits are adjusted upward so that the annual costs relative to payroll will remain the same as now estimated for the present system, then the increased dollar outgo resulting will offset the increased dollar income. This is an important reason for considering costs relative to payroll rather than in dollars.

The long-range cost estimates have not taken into account the possibility of a rise in earnings levels, although such a rise has characterized the past history of this country. If such an assumption were used in the cost estimates, along with the unlikely assumption that the benefits, nevertheless, would not be changed, the cost relative to payroll would, of course, be lower for the cash benefits, but the reverse would be so for the hospitalization and related benefits (as will be discussed in more detail later).

It is important to note that the possibility that a rise in earnings levels will produce lower costs of the cash-benefits program in relation to payroll is a very important safety factor in the financial operations of this system. Its financing is based essentially on the intermediate-cost estimate, along with the assumption of level earnings; if experience follows the high-cost assumptions, and earnings do not rise, additional financing will be necessary. However, if covered earnings increase in the future as in the past, the resulting reduction in the cost of the program (expressed as a percentage of taxable payroll) will more than offset the higher cost arising under experience following the high-cost estimate. If the latter condition prevails, the reduction in the relative cost of the program coming from rising earnings levels can be used to maintain the actuarial balance of the system, and any remaining savings can be used to adjust the cash benefits upward (to a lesser degree than the increase in the earnings level). The possibility of future increases in earnings levels should be considered only as a safety factor and not as a justification for adjusting benefits upward in anticipation of such increases.

If benefits are adjusted currently to keep pace with rising earnings trends as they occur, the year-by-year costs as a percentage of payroll would be unaffected. If benefits are increased in this manner, the level-cost of the program would be higher than now estimated, since, under such circumstances, the relative importance of the interest receipts of the trust funds would gradually diminish with the passage of time. If earnings and benefit levels do consistently rise, thorough consideration will need to be given to the financing basis of the system because then the interest receipts of the trust funds will not meet as large a proportion of the benefit costs as would be anticipated if the earnings level had not risen (under the present law, for example, for the old-age and survivors insurance system, under level-earnings assumptions this proportion would average about 15 percent over the long range).

#### (6) *Assumptions for Hospitalization Benefits*

In considering the hospitalization-benefit costs in conjunction with a level-earnings assumption for the future, it is sufficient for the purposes of long-range cost estimates merely to analyze possible future trends in hospitalization costs relative to covered earnings. Accordingly, any study of past experience of hospitalization costs should be made on this relative basis. The actual experience in recent years has indicated, in general, that hospitalization costs have risen more rapidly than the general earnings level, with the differential being in the neighborhood of 3 percent per year—2.7 percent in the last 10 years.

One of the uncertainties in making cost estimates for hospitalization benefits, then, is how long and to what extent this tendency of hospital costs to rise more rapidly than the general earnings level will continue in the future, and whether or not it may in the long run be counterbalanced by a trend in the opposite direction. Some factors to consider are the relatively low wages of hospital employees (which have been rapidly “catching up” with the general level of wages and obviously may be expected to “catch up” completely at some future date, rather than to increase indefinitely at a more rapid rate than wages generally) and the development of new medical techniques and procedures, with resultant increased expense.

In connection with the latter factor, there are possible counterbalancing factors. The higher costs involved for more refined and extensive treatments may be offset by better general health conditions, the development of out-of-hospital facilities, shorter durations of hospitalization, and less expense for subsequent curative treat-



ments as a result of preventive measures. Also, it is possible that at some time in the future, the productivity of hospital personnel will increase significantly as the result of changes in the organization of hospital services or for other reasons, so that, as in other fields of economic activity, their wages might in the long run increase more rapidly than hospitalization prices.

Perhaps the major difficulty in making and in presenting these actuarial cost estimates for hospitalization benefits is that—unlike the situation in regard to cost estimates for the monthly benefits, where the result is the opposite—an unfavorable cost result is shown when total earnings levels rise, unless the provisions of the system are kept up to date (insofar as the maximum taxable earnings base and the dollar amounts of any deductibles are concerned). The reason for this is that there is the fundamental actuarial assumption that the hospitalization costs will rise at a rate over the long run somewhat approximating the rate of increase of the level of total earnings, whereas the contribution income would rise less rapidly than the total earnings level unless the earnings base is kept up to date. Under these conditions, it is hypothesized that the base will be kept up to date with the changes in the general level of earnings; contributions depend on the covered earnings level, and the level is dampened if the earnings base is not raised as earnings go up. It is assumed in the actuarial cost estimates for hospitalization benefits either that earnings levels will be unchanged in the future or that, if wages continue to rise (as they have done in the past), the system will be kept up to date insofar as the earnings base and the deductibles are concerned.

One important reason for the fact that recently hospitalization costs have risen faster than the general earnings level is that the wages of hospital employees have risen at a faster rate than the general earnings level. Personnel costs are about 60 percent of all hospital costs. The fact that the wages of hospital employees have been rising at a faster rate than all earnings reflects a “catching up” from a situation where hospital workers were significantly underpaid in relation to other workers. It is obvious that such a trend cannot continue and that a point will be reached after which wages paid to hospital workers will rise, on the average, at the same rate as the general earnings level. Nor can other elements in hospitalization costs be presumed to rise indefinitely at a faster rate than the general earnings level.

It is not unlikely that the price of hospital services will for a considerable time rise faster than other prices, but if the price of



any product continues to rise faster than earnings, it would eventually be priced out of the market. Actually, over the long run, hospitalization costs to the consumer are likely to show conflicting trends. On the one hand, improved technology is leading to more expensive hospital services and to the need for additional personnel. On the other hand, the duration of hospital stays is declining as a result of the improvement in care.

The cost assumptions for the hospitalization and related benefits have been made on what is believed to be a conservative basis. Those used for the cost estimates in this report are based on the assumptions underlying the estimates that the Social Security Administration made for the legislation considered in 1962-63 (see *Actuarial Study No. 57* and "Actuarial Cost Estimates for the Old-Age, Survivors, and Disability Insurance System as Modified by H.R. 11865, as Passed by the House of Representatives and as According to the Action of the Senate" issued by the House Ways and Means Committee), but with additional safety margins for the early-year costs. The differential of hospitalization costs over total earnings rates is assumed to be 2.7 percent per year for the first 5 years after 1965; then it is assumed to decrease to zero over the next 5 years, and then after a further 5 years wages are assumed to rise at an annual rate that is 0.5 percent greater than the increase in hospitalization costs.

The net effect of these modified assumptions, for purposes of the long-range cost estimates, is to produce level-costs that are about 10 percent higher than those resulting from the assumptions used in *Actuarial Study No. 57* and that are about the same as those resulting from the assumptions used in the Ways and Means Committee report. For short-range purposes, however, the modified assumptions produce significantly higher estimates than either of the other sets of assumptions.

#### (7) *Interrelationship With Railroad Retirement System*

An important element affecting old-age, survivors, and disability insurance costs arose through amendments made to the Railroad Retirement Act in 1951. These provide for a combination of railroad retirement compensation and old-age, survivors, and disability insurance covered earnings in determining benefits for those with less than 10 years of railroad service (and also for all survivor cases).

Financial interchange provisions are established so that the trust funds are to be placed in the same financial position in which

they would have been if railroad employment had always been covered under the program. It is estimated that over the long range the net effect of these provisions will be a relatively small loss to the old-age, survivors, and disability insurance system since the reimbursements from the railroad retirement system will be somewhat smaller than the net additional benefits paid on the basis of railroad earnings.

#### (8) *Reimbursement for Costs of Military Service Wage Credits*

Another important element affecting the financing of the program arose through legislation in 1956 that provided for reimbursement from general revenues for past and future expenditures in respect to the noncontributory credits that had been granted for persons in military service before 1957. The cost estimates contained here reflect the effect of these reimbursements (which are included as contributions), based on the assumption that the required appropriations will be made in the future, as the Council has strongly recommended should be done.

### D. INTERMEDIATE-COST ESTIMATES

#### (1) *Purposes of Intermediate-Cost Estimates*

The long-range intermediate-cost estimates are developed from the low- and high-cost estimates by averaging them (using the dollar estimates and developing therefrom the corresponding estimates relative to payroll). The intermediate-cost estimate does not represent the most probable estimate, since it is impossible to develop any such figures. Rather, it has been set down as a convenient and readily available single set of figures to use for comparative purposes.

The Congress, in enacting the 1950 act and subsequent legislation, was of the belief that the old-age, survivors, and disability insurance program should be on a completely self-supporting basis. Therefore, a single estimate is necessary in the development of a tax schedule intended to make the system self-supporting. Any specific schedule will necessarily be somewhat different from what will actually be required to obtain exact balance between contributions and benefits. This procedure, however, does make the intention specific, even though in actual practice future changes in the tax schedule might be necessary. Likewise, exact self-support cannot be obtained from a specific set of integral or rounded fractional tax rates increasing in orderly intervals, but rather this principle of self-support should be aimed at as closely as possible.

## *(2) Interest Rate Used in Cost Estimates*

The interest rate used for computing the level-costs is  $3\frac{1}{2}$  percent for the intermediate-cost estimate. This is somewhat above the average yield of the investments of the trust funds at the end of 1963 (about 3 percent), but is below the rate currently being obtained for new investments (about  $4\frac{1}{4}$  percent).

## *(3) Actuarial Balance of System as Modified by Proposal*

Table A summarizes the actuarial balance of the existing old-age, survivors, and disability insurance program in terms of percentages of taxable payroll, according to the intermediate-cost estimate, and gives corresponding information for the program as it would be changed by the recommendations of the Council (and also for programs that are intermediate steps between the present program and these recommendations). For purposes of comparability, the data for the present program are shown on both the basis of measuring costs over perpetuity and the basis of measuring costs over only a 75-year period (as recommended by the Council). The data for the proposed program, as shown here and as shown elsewhere in this report, are on the 75-year cost basis.

Information on the actuarial balance of the proposed hospital insurance program is contained in a table in Part II, which shows that the level-cost of the benefits for all beneficiaries is estimated at .90 percent of taxable payroll, while the level-equivalent of the contribution schedule is also estimated at .90 percent of taxable payroll. Included in the foregoing cost figures is the level-cost of the benefits for the disability insurance beneficiaries, which is estimated at .05 percent of taxable payroll. It should be noted that the recommended 0.15 percent contribution from general revenues for a period of 50 years has an estimated level-cost of 0.10 percent of taxable payroll.

## *(4) Year-by-Year Projections of Income and Outgo*

Table B shows the estimated operations of the old-age and survivors insurance trust fund in various future years according to the intermediate-cost estimate, as well as giving actual data for the past 14 years. Table C shows corresponding data for the disability insurance trust fund, while Table D relates to the hospital insurance trust fund. With respect to the latter table, it should be observed that the benefit-disbursement estimates do not include the *total* hospital insurance benefit payments made to railroad retirement beneficiaries, but rather only the net effect of the financial-interchange provisions for these benefits. It will also be remembered that the

estimate of total benefit payments includes the payments with respect to persons who are not eligible for cash benefits, whereas the estimates relating to the hospital insurance trust fund that were made for the King-Anderson bill and the Senate-approved version of the legislation considered in 1964 did not include such payments (since they were to be financed currently out of the General Treasury, and not through direct trust-fund operations).

It is interesting to note that for each of the three trust funds separately, the short-range cost estimates indicate that the balance in the trust fund at the end of each year increases steadily during 1966-72 and in most instances quite closely approximates one year's benefit payments.

Tables E and F show long-range year-by-year cost projections for the old-age and survivors insurance trust fund and for the disability insurance trust fund, respectively, under the low-cost and high-cost estimates.

Table G presents the actuarial balance of the old-age, survivors, and disability insurance program as it would be changed by the recommendations of the Council, in terms of percentages of taxable payroll according to the low-cost and high-cost estimates. It will be noted that the level-cost of the benefits of the old-age, survivors, and disability insurance program according to the low-cost estimate is 8.9 percent of taxable payroll, which approximates the 9.4 percent combined employer-employee contribution rate that is recommended for 1971-75. This basis is in accordance with one of the financing principles enunciated by both this Council and the last one in regard to the next-to-last step in the contribution schedule (to be reached in the next few years).



**Table A**

**SUMMARY OF ACTUARIAL BALANCES OF EXISTING AND PROPOSED  
OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM,  
IN TERMS OF PERCENTAGES OF TAXABLE PAYROLL, INTER-  
MEDIATE-COST ESTIMATE**

<i>Item</i>	<i>[In percent]</i>		
	<i>OASI</i>	<i>DI</i>	<i>Total</i>
<b>Present Program, \$4,800 Earnings Base, Perpetuity Cost Basis</b>			
Level-Cost of Benefits.....	8.72	.64	9.36
Level-Equivalent of Contribution Schedule.....	8.62	.50	9.12
Actuarial Balance.....	— .10	— .14	— .24
<b>Present Program, \$4,800 Earnings Base, 75-Year Cost Basis</b>			
Level-Cost of Benefits.....	8.46	.63	9.09
Level-Equivalent of Contribution Schedule.....	8.60	.50	9.10
Actuarial Balance.....	+ .14	— .13	+ .01
<b>Present Program, \$6,000–7,200 Earnings Base for Contributions Only and \$4,800 Earnings Base for Benefit Purposes, 75-Year Cost Basis</b>			
Level-Cost of Benefits.....	7.20	.54	7.74
Level-Equivalent of Contribution Schedule...	8.60	.50	9.10
Actuarial Balance.....	+1.40	— .04	+1.36
<b>Present Program, \$6,000–7,200 Earnings Base for Both Contributions and Benefit Purposes, 75-Year Cost Basis</b>			
Level-Cost of Benefits.....	7.91	.59	8.50
Level-Equivalent of Contribution Schedule...	8.60	.50	9.10
Actuarial Balance.....	+ .69	— .09	+ .60
<b>Proposed Program, \$6,000–7,200 Earnings Base, 75-Year Cost Basis</b>			
Level-Cost of Benefits.....	9.41	.72	10.13
Level-Equivalent of Contribution Schedule.....	9.42	.75	10.17
Actuarial Balance.....	+ .01	+ .03	+ .04

NOTE: The level-costs of the benefits take into account administrative expenses, railroad retirement financial interchange provisions, and interest on the trust fund existing as of December 31, 1965. The taxable payroll is reduced to take into account the lower contribution rate for the self-employed as compared with the combined employer-employee rate.

Table B

PROGRESS OF OLD-AGE AND SURVIVORS INSURANCE TRUST FUND  
UNDER PROPOSED PROGRAM, INTERMEDIATE-COST ESTIMATE <sup>1</sup>

Calendar Year	[In millions]					Balance in Fund at End of Year <sup>3</sup>
	Contributions	Benefit Payments	Administrative Expenses	Railroad Retirement Financial Interchange <sup>2</sup>	Interest on Fund <sup>1</sup>	
Actual data						
1951 . . . . .	\$3, 367	\$1, 885	\$81	.....	\$417	\$15, 540
1952 . . . . .	3, 819	2, 194	88	.....	365	17, 442
1953 . . . . .	3, 945	3, 006	88	.....	414	18, 707
1954 . . . . .	5, 163	3, 670	92	--\$21	447	20, 576
1955 . . . . .	5, 713	4, 968	119	—7	454	21, 663
1956 . . . . .	6, 172	5, 715	132	—5	526	22, 519
1957 . . . . .	6, 825	7, 347	<sup>4</sup> 162	—2	556	22, 393
1958 . . . . .	7, 566	8, 327	<sup>4</sup> 194	124	552	21, 864
1959 . . . . .	8, 052	9, 842	184	282	532	20, 141
1960 . . . . .	10, 866	10, 677	203	318	516	20, 324
1961 . . . . .	11, 285	11, 862	239	332	548	19, 725
1962 . . . . .	12, 059	13, 356	256	361	526	18, 337
1963 . . . . .	14, 541	14, 217	281	423	521	18, 480
Estimated data (short-range estimate)						
1964 . . . . .	\$15, 688	\$14, 902	\$300	\$403	\$565	\$19, 128
1965 . . . . .	16, 014	15, 640	324	399	593	19, 372
1966 . . . . .	20, 170	19, 380	354	411	626	20, 023
1967 . . . . .	21, 739	20, 515	356	451	679	21, 119
1968 . . . . .	23, 389	21, 451	363	485	756	22, 965
1969 . . . . .	24, 607	22, 401	370	486	787	25, 102
1970 . . . . .	25, 390	23, 377	377	471	887	27, 154
1971 . . . . .	28, 392	24, 343	384	466	1, 030	31, 383
1972 . . . . .	29, 634	25, 332	391	442	1, 225	36, 077

Footnotes at end of table.

Table B—Continued

PROGRESS OF OLD-AGE AND SURVIVORS INSURANCE TRUST FUND  
UNDER PROPOSED PROGRAM, INTERMEDIATE-COST ESTIMATE <sup>1</sup>—  
continued

Calendar Year	[In millions]				Interest on Fund <sup>1</sup>	Balance in Fund at End of Year <sup>2</sup>
	Contributions	Benefit Payments	Administrative Expenses	Railroad Retirement Financial Interchange <sup>2</sup>		
Estimated data (long-range estimate)						
1975 . . . . .	\$28,576	\$27,077	\$402	\$380	\$1,061	\$34,530
1980 . . . . .	34,962	31,594	444	120	1,844	59,188
1990 . . . . .	40,017	40,309	524	—60	2,991	92,090
2000 . . . . .	46,418	45,002	576	—110	4,068	125,275
2020 . . . . .	56,041	62,189	744	—135	8,286	247,883

<sup>1</sup> An interest rate of 3.5 percent is used in determining the level costs, but in developing the progress of the trust fund a varying rate in the early years has been used, which is equivalent to such fixed rate.

<sup>2</sup> A negative figure indicates payment to the trust fund from the railroad retirement account, and a positive figure indicates the reverse.

<sup>3</sup> Not including amounts in the railroad retirement account to the credit of the old-age and survivors insurance trust fund. In millions of dollars, these amounted to \$377 for 1953, \$284 for 1954, \$163 for 1955, \$60 for 1956, and nothing for 1957 and thereafter.

<sup>4</sup> These figures are artificially high because of the method of reimbursements between this trust fund and the disability insurance trust fund (and, likewise, the figure for 1959 is too low).

NOTE: Contributions include reimbursement for additional cost of noncontributory credit for military service.

Table C

**PROGRESS OF DISABILITY INSURANCE TRUST FUND UNDER  
PROPOSED PROGRAM, INTERMEDIATE-COST ESTIMATE <sup>1</sup>**

[In millions]						
<i>Calendar Year</i>	<i>Contributions</i>	<i>Benefit Payments</i>	<i>Administrative Expenses</i>	<i>Railroad Retirement Financial Interchange <sup>2</sup></i>	<i>Interest on Fund <sup>1</sup></i>	<i>Balance in Fund at End of Year</i>
Actual data						
1957.....	\$702	\$57	<sup>3</sup> \$3	.....	\$7	\$649
1958.....	966	249	<sup>3</sup> 12	.....	25	1,379
1959.....	891	457	50	—\$22	40	1,825
1960.....	1,010	568	36	—5	53	2,289
1961.....	1,038	887	64	5	66	2,437
1962.....	1,046	1,105	66	11	68	2,368
1963.....	1,099	1,210	68	20	66	2,235
Estimated data (short-range estimate)						
1964.....	\$1,153	\$1,318	\$80	\$20	\$64	\$2,034
1965.....	1,187	1,471	87	20	56	1,699
1966.....	1,876	1,784	100	20	52	1,723
1967.....	2,072	1,897	109	20	54	1,823
1968.....	2,231	1,946	103	15	60	2,050
1969.....	2,347	1,999	109	15	70	2,344
1970.....	2,424	2,053	114	15	83	2,669
1971.....	2,499	2,106	119	15	95	2,023
1972.....	2,577	2,161	124	10	109	3,414
Estimated data (long-range estimate)						
1975.....	\$2,475	\$2,230	\$106	—\$4	\$133	\$4,210
1980.....	2,672	2,446	109	—8	182	5,678
1990.....	3,058	2,752	110	—11	313	9,632
2000.....	3,547	3,241	124	—11	537	16,310

<sup>1</sup> An interest rate of 3.5 percent is used in determining the level costs, but in developing the progress of the trust fund a varying rate in the early years has been used, which is equivalent to such fixed rate.

<sup>2</sup> A negative figure indicates payment to the trust fund from the railroad retirement account, and a positive figure indicates the reverse.

<sup>3</sup> These figures are artificially low because of the method of reimbursements between the trust fund and the old-age and survivors insurance trust fund (and, likewise, the figure for 1959 is too high).

NOTE: Contributions include reimbursement for additional cost of noncontributory credit for military service.



Table D

**ESTIMATED PROGRESS OF HOSPITAL INSURANCE TRUST FUND  
UNDER PROPOSED PROGRAM, INTERMEDIATE-COST ESTIMATE <sup>1</sup>**

[In millions]

<i>Calendar Year</i>	<i>Contributions from Worker and Employer</i>	<i>Contributions from Government</i>	<i>Benefit Pay- ments and Adminis- trative Expenses <sup>2</sup></i>	<i>Interest on Fund<sup>1</sup></i>	<i>Balance in Fund at End of Year</i>
Estimated data (short-range estimate)					
1966.....	\$1, 808	\$339	\$1, 007	\$29	\$1, 169
1967.....	2, 219	430	2, 204	47	1, 661
1968.....	2, 389	464	2, 438	65	2, 141
1969.....	2, 513	489	2, 683	81	2, 541
1970.....	2, 597	506	2, 958	93	2, 779
1971.....	2, 676	520	3, 201	98	2, 872
1972.....	2, 760	538	3, 456	98	2, 812
Estimated data (long-range estimate)					
1975.....	\$2, 634	\$510	\$3, 031	\$195	\$6, 132
1980.....	2, 842	552	3, 295	251	7, 795
1990.....	3, 254	632	3, 835	381	11, 677
2000.....	3, 776	732	4, 052	621	19, 006

<sup>1</sup> An interest rate of 3.5 percent is used in determining the level-costs, but in developing the progress of the trust fund a varying rate in the early years has been used, which is equivalent to such fixed rate.

<sup>2</sup> The net payment to (or from) the railroad retirement system is included here.

NOTE: Contributions include reimbursement for additional cost of noncontributory credit for military service.

Table E

ESTIMATED PROGRESS OF OLD-AGE AND SURVIVORS INSURANCE  
TRUST FUND UNDER PROPOSED PROGRAM, LOW-COST AND  
HIGH-COST ESTIMATES

	[In millions]					
Calendar Year	Contributions	Benefit Payments	Administrative Expenses	Railroad Retirement Financial Interchange <sup>1</sup>	Interest on Fund <sup>2</sup>	Balance in Fund at End of Year
Low-cost estimate						
1975 . . . . .	\$29, 181	\$26, 493	\$372	\$350	\$1, 537	\$46, 526
1980 . . . . .	36, 062	30, 614	410	85	2, 835	84, 099
1990 . . . . .	42, 679	38, 320	483	—105	6, 006	171, 992
2000 . . . . .	50, 887	42, 137	530	—160	11, 216	318, 705
High-cost estimate						
1975 . . . . .	\$27, 971	\$27, 659	\$431	\$410	\$678	\$22, 979
1980 . . . . .	33, 863	32, 576	478	155	1, 029	35, 421
1990 . . . . .	37, 355	42, 298	566	15	473	16, 498
2000 . . . . .	41, 947	47, 866	621	—60	( <sup>3</sup> )	( <sup>3</sup> )

<sup>1</sup> A negative figure indicates payment to the trust fund from the railroad retirement account, and a positive figure indicates the reverse.

<sup>2</sup> At interest rates of 3.75 percent for the low-cost estimate and 3.25 percent for the high-cost estimate.

<sup>3</sup> Fund exhausted in 1993.

NOTE: Contributions include reimbursement for additional cost of noncontributory credit for military service.

Table F

ESTIMATED PROGRESS OF DISABILITY INSURANCE TRUST FUND  
UNDER PROPOSED PROGRAM, LOW-COST AND HIGH-COST  
ESTIMATES

	[In millions]					
Calendar Year	Contributions	Benefit Payments	Administrative Expenses	Railroad Retirement Financial Interchange <sup>1</sup>	Interest on Fund <sup>2</sup>	Balance in Fund at End of Year
Low-cost estimate						
1975.....	\$2, 527	\$2, 079	\$97	—\$8	\$226	\$6, 638
1980.....	2, 755	2, 267	98	—12	348	10, 047
1990.....	3, 261	2, 540	96	—16	723	20, 567
2000.....	3, 888	3, 035	106	—16	1, 369	38, 556
High-cost estimate						
1975.....	\$2, 424	\$2, 381	\$115	.....	\$56	\$1, 868
1980.....	2, 589	2, 625	121	—\$4	43	1, 511
1990.....	2, 855	2, 965	124	—6	( <sup>3</sup> )	( <sup>3</sup> )
2000.....	3, 207	3, 447	141	—6	( <sup>3</sup> )	( <sup>3</sup> )

<sup>1</sup> A negative figure indicates payment to the trust fund from the railroad retirement account, and a positive figure indicates the reverse.

<sup>2</sup> At interest rates of 3.75 percent for the low-cost estimate and 3.25 percent for the high-cost estimate.

<sup>3</sup> Fund exhausted in 1988.

NOTE: Contributions include reimbursement for additional cost of noncontributory credit for military service.

Table G

ACTUARIAL BALANCES OF PROPOSED OLD-AGE, SURVIVORS, AND  
DISABILITY INSURANCE PROGRAM, IN TERMS OF PERCENTAGES  
OF TAXABLE PAYROLL, LOW-COST AND HIGH-COST ESTIMATES,  
75-YEAR COST BASIS

[In percent]

<i>Item</i>	<i>OASI</i>	<i>DI</i>	<i>Total</i>
Low-cost estimate			
Level-Cost of Benefits . . . . .	8.26	.64	8.90
Level-Equivalent of Contribution Schedule . . . .	9.39	.75	10.14
Actuarial Balance . . . . .	1.13	.11	1.24
High-cost estimate			
Level-Cost of Benefits . . . . .	10.94	.83	11.77
Level-Equivalent of Contribution Schedule . . . .	9.44	.75	10.19
Actuarial Balance . . . . .	-1.50	-.08	-1.58











THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE  
WASHINGTON

January 3, 1969

Dear Mr. Speaker:

I have the honor to transmit to you a report of the "Advisory Council on Health Insurance for the Disabled." The Council was appointed in 1968 as required by section 140 of the Social Security Amendments of 1967. As the law directs, the report includes the Council's findings and recommendations with respect to the unmet needs for protection, the cost of providing such protection, and methods of financing such protection.

In summary, the Council finds that a high proportion of severely disabled people are unable to obtain comprehensive health insurance protection and have an unmet need for such protection.

Therefore, the Council recommends that the hospital and supplementary medical insurance programs under title XVIII of the Social Security Act (Medicare) be extended to the disabled. The principle of Medicare coverage for the disabled is supported by a majority of 11 to 1. Eight of the 11 recommend that both parts of the Medicare program as extended to the disabled be financed through social security contributions and a contribution from general revenues. Thus, in the case of the medical insurance program the Council recommends, instead of the present method of financing on a voluntary, current-premium basis, the contributory social insurance method used in the present hospital insurance and social security cash benefits programs.

While 3 members recommend that Medicare protection be made available only after disability has lasted 12 months, the majority recommends protection for those whose disability has lasted for 3 months (regardless of how long it can be expected to last) and, in addition, for certain older workers (age 55 to 64) who meet a proposed "occupational" definition of disability. (Under present law, cash benefits are generally available to disabled workers under age 65 on the basis of a disability that has lasted at least 6 months and that can be expected to last for 1 year.)

I wholeheartedly support the recommendation of the Council to extend Medicare coverage to the disabled on a contributory social insurance basis. I recommend that this protection be made available to all disability cash beneficiaries under social security. I am also recommending that eligibility for disability cash benefits under social security be provided, as the Council has recommended that



eligibility for Medicare benefits be provided, for those who meet a 3-month waiting period, without any prognosis requirement. Thus, under my recommendation, both Medicare and cash benefits would be payable on the basis of a 3-month waiting period and without any prognosis requirement.

The additional Medicare disbursements on behalf of beneficiaries under the proposal I recommend would be about \$2 billion annually in the early 1970's and the protection would go to roughly 2 million disabled people—workers, widows and widowers, and adults disabled since childhood. Approximately 70 percent of the cost of the proposal is for hospital and related coverage; the other 30 percent is for physicians' services and related coverage. The level-cost of this proposal is 0.66 percent of taxable payroll with the present \$7800 earnings base; if the base is increased in steps to \$15,000, the level-cost of the proposal would be lower—0.53 percent of payroll. I believe the additional protection is well worth the additional cost. I would hope that this additional insurance protection would further help to restrain the increasing costs of Medicaid and other welfare programs.

I recommend the favorable consideration of this proposal and prompt action by the Congress on this matter.

Sincerely,

A handwritten signature in dark ink, appearing to read "Warren E. Hearnes", written in a cursive style.

Secretary

Honorable John W. McCormack  
Speaker of the House of Representatives  
Washington, D.C. 20515

Enclosure

health insurance  
for the disabled  
under social security

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report of the  
advisory council  
on health insurance  
for the disabled  
1969



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# letter of transmittal

December 31, 1968

Honorable Wilbur J. Cohen  
Secretary of Health, Education, and Welfare  
Washington, D.C. 20201

Dear Mr. Secretary:

As required by section 140 of the Social Security Amendments of 1967, there is transmitted herewith the report of the Advisory Council on Health Insurance for the Disabled. The report, as directed by law, includes the Council's findings and recommendations with respect to the unmet need of the disabled for health insurance protection, the cost of providing such protection, and methods of financing such protection.

As Chairman, I want to express my deep appreciation for the work of the members of the Council, who gave unsparingly of their time, experience, and individual efforts. They have served with dedication and distinction.

On behalf of the Council I want to express appreciation also for the assistance of the staff, headed by Alvin M. David and Robert J. Myers. The Council's efforts were strengthened by the highly efficient service they gave us.

I trust that this report will be implemented so as to serve the needs of the chronically disabled and so as to supplement their cash benefits and allow them to live better lives.

Sincerely yours,

A handwritten signature in dark ink, reading "Henry H. Kessler, M.D." in a cursive script.

Henry H. Kessler, M.D.  
Chairman, Advisory Council  
on Health Insurance for the Disabled



# foreword

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The Social Security Amendments of 1967 provide that an advisory council be appointed to study the question of extending Medicare to the disabled. The council was directed to determine whether the disabled have an unmet need for health insurance protection, and to examine the costs involved in providing this protection and the ways of financing it. During consideration of the 1967 social security amendments, the Congress gave attention to the possibility of extending Medicare benefits to social security disability beneficiaries, but decided to defer this matter, largely because of problems as to the most desirable method of financing Medicare protection for disability beneficiaries.

The Secretary of Health, Education, and Welfare appointed an Advisory Council on Health Insurance for the Disabled in June 1968. The Council held its first meeting on July 18 and 19, 1968, and met several other times during the remainder of the year. Between meetings the Council continued its study through consideration of extensive materials, including staff reports prepared by the Social Security Administration and letters and other documents from interested individuals and organizations.





# membership of the council

\*Morris Brand, M.D.

*Medical Director, Sidney Hillman Health Center*

James Brindle

*President, Health Insurance Plan of Greater New York*

James M. Gillen

*Director of Personnel Research, General Motors Corporation*

Henry H. Kessler, M.D., Ph.D., Chairman

*Director, Kessler Institute for Rehabilitation*

Juanita M. Kreps, Ph.D.

*Professor of Economics, Duke University*

William O. Kuhl, Ph.D.

*Director, Research and Education, International Brotherhood of Boilermakers, Iron Ship Builders, Blacksmiths, Forgers, and Helpers*

Leonard W. Larson, M.D.

*Past President, American Medical Association*

Daniel W. Pettengill, F.S.A.

*Vice President, Group Division, Aetna Life and Casualty Company*

Bert Seidman

*Director, Department of Social Security, AFL-CIO*

E. A. Vaughn

*Vice President and Controller, Aluminum Company of America*

Anthony G. Weinlein, Ph.D.

*Executive Assistant to the General President,  
Service Employees International Union, AFL-CIO*

E. B. Whitten

*Executive Director, National Rehabilitation Association*

Alonzo S. Yerby, M.D.

*Professor and Head, Department of Health Services Administration,  
School of Public Health, Harvard University*

\*Deceased—replaced by William O. Kuhl



# introduction

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As required by the Social Security Amendments of 1967, the Advisory Council on Health Insurance for the Disabled has examined the extent to which disabled persons in this country have an unmet need for health insurance, the costs involved in providing hospital and medical insurance for the disabled, and ways of financing this insurance.

The Council undertook to inquire into these matters in terms of a broader definition of disability than that used in determining a person's eligibility for cash disability benefits under social security; for that purpose, disability is defined as:

inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.

The Council examined data on persons identified as being disabled according to the definition used in the 1966 Survey of Disabled Adults.<sup>1</sup> That Survey defined disability as a limitation in the kind or amount of work (or housework) resulting from a chronic health condition or impairment lasting 3 or more months.

<sup>1</sup> The 1966 Survey of Disabled Adults was a national study of disability undertaken in the spring of 1966 by the Social Security Administration. The data for the study were collected by the Bureau of the Census.



Data from the 1966 Survey enabled the Council to compare the relative status of the estimated 18 million disabled individuals, classified according to the degree of their disability, in terms of income, labor force participation, utilization of health services, health expenditures, and health insurance status.<sup>1</sup> This Survey was based on a national area probability sample of 30,000 households, in which personal interviews were conducted with approximately 8,700 noninstitutionalized disabled adults under age 65. The study methods are discussed in Appendix B.

The 1966 Survey classified disabled individuals on the basis of their responses to questions about their ability to work. On this basis, 6 million individuals were classified as severely disabled (unable to work regularly or at all); 5 million were classified as occupationally disabled (able to work only part time or unable to perform the same work they had done before their disability began); and some 6.6 million individuals were classified as having secondary work limitations (limited in the kind or amount of work they could do as a result of their disability, but able to work regularly, full time, and at the same work they had done before their disability began).

Because of limitations in the data on the quality of health insurance coverage of both the disabled population and the population as a whole, the Council's consideration of the question of the "unmet need" of the disabled for health insurance was in terms of the extent to which the disabled have any form of private health insurance coverage, the types of health insurance that are available to them, and their ability to pay for such protection. The Council found that available data did not permit a detailed examination of the comprehensiveness of the health insurance coverage available to the disabled or the adequacy of the benefits paid under this coverage.<sup>2</sup>

<sup>1</sup> The 1966 Survey collected data with respect to people disabled 3 months or longer; however, data for those disabled 6 months or less (some 400,000 people) were not tabulated. The 18 million disabled adults also do not include an estimated 700,000 institutionalized severely disabled people. ("Institutionalized" is used to mean confined in mental, tuberculosis, or chronic disease hospitals, extended care facilities, VA hospitals, etc., but not to include patients in short-stay general hospitals). While the 1966 Survey of Disabled Adults included the institutionalized disabled, data from this part of the study are not yet available and no reliable data on the institutionalized disabled population are available from any other source.

<sup>2</sup> Of much help to the Council with respect to its consideration of the present status of group health insurance coverage and benefits were Health Insurance Association of America, *A Profile of Group Health Insurance in Force in the United States, December 31, 1966: A Survey of Group Health Insurance Policies by Level of Benefit Amounts* (Chicago: Health Insurance Association of America, 1967); Health Insurance Association of America, *A Comparison of Group Medical Care Insurance Benefits to Charges* (Chicago: Health Insurance Association of America, 1968).

Study data show that there is a direct relationship between the level of severity of disability, the incidence of health costs, and the extent of need for health insurance. It is readily apparent from 1966 Survey data that while persons with secondary disabilities used slightly more hospital and medical services than did the nondisabled population, they were comparable to the nondisabled in terms of labor force participation, employment status, and health insurance coverage.<sup>1</sup> While those with occupational disabilities were in a less advantageous position with respect to those criteria than were those with secondary impairments, they were significantly better off on all counts than were the severely disabled. Since employment status is the single most important determinant of health insurance coverage, it is significant that, in 1966, 72 percent of the occupationally disabled men were employed full time (as compared with 84 percent of the nondisabled men).

The occupationally disabled do, though, have a higher unemployment rate than the nondisabled population.<sup>2</sup> Thus, many among the occupationally disabled may have an unmet need for health insurance coverage—for example, persons who are unemployed for substantial periods of time or whose private insurance coverage is severely limited because of underwriting exclusions. On balance, the Council believes that, with the exception of the older occupationally disabled worker, the occupationally disabled individual stands a relatively good chance of becoming employed and having insurance coverage.

The Council has also given consideration to the fact that some persons who are able to carry on their regular work suffer from very serious disabling conditions and incur extremely heavy medical expenses. Such persons may have a substantial unmet need for health insurance protection or a need for some other means of meeting these expenses—for example, a person who has a chronic renal disease and who, although able to work full time, requires renal dialysis on a continuing basis. The Council recognizes that the question of the appropriate roles of the private sector, social insurance, and other public programs in meeting the expenses of catastrophic illness is a very significant one and one which deserves extensive consideration. The Council finds though that this area involves many broad and complex questions of social policy that go beyond the scope of this Council's assignment and therefore suggests that future advisory groups should consider the matter and, specifically, that the next Advisory Council on Social Security (to be appointed in 1969) should consider the role of social security in this area.

<sup>1</sup> Summary data on the occupationally disabled and those with secondary disabilities are presented in Appendix B.

<sup>2</sup> Seven percent of the occupationally disabled men were unemployed as compared with 3 percent of the nondisabled men.

The Council's examination of the unmet need of the severely disabled for health insurance included consideration of the appropriate roles of private insurance, social insurance and other public programs in filling the needs of the disabled for health care. As is described in Part I of this report, the Council found that because of the high costs involved in insuring the severely disabled and the difficulties inherent in extending group coverage to them, it is not realistic to expect that private insurance alone can adequately meet the needs of the long-term severely disabled. As to the question whether primary reliance should be placed on the social insurance mechanism or on other public programs for meeting the health care expenses of the severely disabled, the Council found that social insurance—the method used with a high degree of success in meeting the health care expenses of the aged—is much to be preferred. Specifically, 11 of the 12 members of the Council favor the extension of Medicare coverage to the disabled as a matter of principle, with some members differing with respect to the terms of coverage.

Part I of the report discusses the Council findings with respect to the unmet need of severely disabled persons for health insurance coverage, the costs involved in providing protection for this group, and the reasons why the Council believes the social insurance approach embodied in Medicare is the most feasible method of providing health insurance coverage. Part II of the report discusses the Council's recommendations as to eligibility for coverage under Medicare and how Medicare protection for the disabled should be financed. This part also includes a statement of the Council's views on vocational rehabilitation. Following Part II are minority views and recommendations.

# summary of findings & recommendations

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I. The Council has studied the need for and problems connected with health insurance for the disabled, and finds as follows:

1. Most severely disabled individuals have high health costs and low incomes. Disabled workers who qualify for social security disability benefits use seven times as much hospital care and three times as much physicians' services as does the entire population.<sup>1,2</sup> Hospital utilization is about  $3\frac{1}{4}$  times as great for the disabled as for the aged; utilization of physicians' services is about  $2\frac{1}{2}$  times as great for the disabled as for the aged. The median income of disabled worker beneficiaries is less than half that of the nondisabled population.
2. The predominantly high health costs and relatively low incomes of the severely disabled make it unrealistic to expect private voluntary insurance alone to provide the great majority of them with comprehensive protection over the entire period of their disability. In 1966, only 46 percent of the disabled worker

<sup>1</sup> These figures and most of the data used in this report are based on the 1966 Survey of Disabled Adults, which is described in detail in Appendix B. Where data are taken from other sources, those sources will be indicated.

<sup>2</sup> "Entire population" includes noninstitutionalized adults under age 65.



beneficiaries under social security had some form of private health insurance; 40 percent had some degree of protection against both hospital costs and the cost of inpatient medical care.

3. It is appropriate, feasible, and desirable to use the social insurance approach to help finance the health costs of the disabled. Through the social insurance mechanism people can make contributions during their working years, when incomes are relatively high, and build protection against hospital and medical costs in the event they become disabled and unable to work. Reliance on the Nation's social insurance system will reduce the need for public assistance and permit Federal-State assistance programs to better fill their role as a backstop to private efforts and social insurance.
- II. The Council proposes health insurance protection for the disabled on the following basis:
  1. The existing hospital and medical insurance programs under title XVIII of the Social Security Act (Medicare) should be extended to those receiving social security monthly benefits on the basis of their disabilities.
  2. Hospital and medical insurance benefits for the present disabled, as well as for those who become disabled in the future, should be financed by contributions from employees, employers, and the self-employed, with a contribution from Federal general revenues equal to one-half the cost of the program.
  3. Instead of the 6-month waiting period required in present law for receipt of social security disability benefits, a 3-month waiting period should be required for hospital and medical insurance benefits. The requirement in the cash-benefit program that a disability must have lasted or be expected to last at least 12 months or to end in death should not apply in the case of Medicare benefits.
  4. Older disabled workers should qualify for Medicare protection on the basis of less severe disability than is required under present law for eligibility for cash benefits. Insured workers aged 55 and over should be eligible for Medicare if they are so disabled that they can no longer engage in substantial gainful activity in their regular work or in any other work in which they have engaged with some regularity in the recent past.
  5. Disabled people who qualify for Medicare protection but not for disability benefits should be eligible to receive vocational rehabilitation services financed by the social security program on the same basis as people who qualify for disability benefits.
  6. The "level-cost" of the Council's recommendations is estimated at 0.80 percent of taxable payroll. In accordance with Recommendation No. 2 above, half of this cost, or 0.40 percent of taxable payroll, would be met from payroll contributions and the other half from general revenues.

# part 1/the problem of health insurance protection for the disabled

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The Council has considered the health care needs of the disabled, their present protection against the costs of health care, and alternative approaches to improving this protection. The findings of the Council are as follows:

**1. Most severely disabled individuals have high health costs and low incomes.**

Utilization of health services by persons who are severely disabled is substantially higher than is such utilization by the nondisabled. Disabled workers receiving cash benefits under the social security disability program use seven times as much hospital care in a year as does the entire population; their utilization of physicians' services is three times that of the entire population.<sup>1</sup> Utilization of health services by disabled worker beneficiaries is also higher than utilization of these services by the broader group of "severely disabled."<sup>2</sup> According to 1966 Survey data, hospital utilization under a health insurance program such as Medicare would be about 3¼ times as great for disabled worker beneficiaries as it is for the aged and utilization of physicians' services would be about 2½ times as great for disabled worker beneficiaries as for the aged. Comparing the

<sup>1</sup> "Entire population" includes noninstitutionalized adults under age 65.

<sup>2</sup> "Severely disabled" as defined in the 1966 Social Security Survey of Disabled Adults is discussed on page 43 of Appendix B.

situation of the disabled worker beneficiaries with that of the aged, the Council found that in 1965 a higher proportion of the disabled than of the aged was hospitalized (29 percent and 14 percent, respectively). On the average, the disabled workers who were hospitalized stayed in the hospital almost twice as long as hospitalized aged persons (30 days and 16 days, respectively). Similarly, a higher proportion of disabled worker beneficiaries than of the aged had out-of-hospital physicians' visits (88 percent and 69 percent, respectively). Health care utilization—particularly hospital utilization—is indicative of health care costs. The health care costs of older people who were hospitalized were 10 times greater than for those who were not hospitalized.

While the health care expenses of the disabled worker beneficiaries are quite high in relation to those of the nondisabled population and to those of even the aged, the median income of social security disabled worker beneficiaries is less than half that of the nondisabled population. (The median income of these beneficiaries is slightly higher than that of severely disabled nonbeneficiaries, a fact attributable to their receipt of benefits.) On the basis of the Social Security Administration's poverty index, which takes into account family size, sex, and age of family members, half of the disabled worker beneficiaries were "poor or near poor" (annual income of less than \$3,000 for two people, for example) and one-third of disabled worker beneficiaries were at or below the poverty level (annual income of less than \$2,250 for two people, for example).<sup>1</sup>

While a sizeable proportion of the adult population taken as a whole is not insured for disability benefits under social security, a much smaller proportion of working people lacks such insured status. (And, in addition, disabled widows and widowers and adults disabled since childhood who get benefits based on their disabilities would have Medicare protection under the Council's recommendations.) Adults who will lack such protection are, then, primarily nonworking wives. Unlike disabled workers, these wives will have no reduction in income as a result of their disability. And, for many of them, private health insurance coverage as dependents, based on their husbands' work, will continue despite their becoming disabled.

**2. The predominantly high health costs and relatively low incomes of the severely disabled make it unrealistic to expect private voluntary insurance alone to provide the great majority of them with comprehensive protection over the entire period of their disability.**

<sup>1</sup> Office of Research and Statistics of the Social Security Administration, Division of Disability Studies, *Income of the Disabled* (preliminary report for the Advisory Council on Health Insurance for the Disabled).

With respect to health insurance coverage, the Council found that the severely disabled were in a very disadvantageous situation as compared to the total population and even as compared to the aged before Medicare. The Health Insurance Council estimates that at the end of 1966, 85 percent of the noninstitutionalized civilian population under age 65 had some protection against the cost of hospital care, 78 percent against surgical expenses, and 63 percent against in-hospital physicians' expenses. However, the 1966 Survey shows that in 1966 only 49 percent of the severely disabled had any health insurance and only 43 percent had some protection against the costs of both hospital care and inpatient medical care. Of the disabled worker beneficiaries, only 46 percent had some form of health insurance protection and 40 percent had some protection against both hospital costs and the cost of inpatient medical care. Before Medicare, 54 percent of the aged had some form of health insurance protection.<sup>1</sup>

The severely disabled person who is no longer attached to the labor force and who is no longer eligible for coverage under a group plan must, in most cases, rely on individually purchased policies or group conversion policies for protection against his health care costs. In general, coverage made available to the disabled on an individual basis—whether or not through conversion—is more expensive than coverage on a group basis and more expensive than individual coverage for nondisabled persons. Moreover, such coverage is likely also to be more expensive than the disabled person, who generally has suffered a significant reduction in income, can afford; or the benefits provided may be so limited that the coverage cannot be considered adequate.

The only way of providing adequate health insurance to the disabled at a moderate cost is on a group basis. Although the health insurance industry has tried to insure the disabled through improvements in employment-based group plans and through nonemployment-based groups, the Council finds that there is still a substantial unmet need. Most severely disabled people do not have comprehensive health insurance protection throughout their disability.

### **3. It is appropriate, feasible, and desirable to use the social insurance approach to help finance the health costs of the disabled.**

The Council endorses using the social insurance mechanism embodied in the hospital insurance part of Medicare—the approach which has been used successfully in meeting the health expenses of the aged—as the primary means of meeting the health care expenses of the severely disabled. Through the social insurance mechanism people can make contributions during their working years, when incomes are relatively high, and build health insurance protection in the event they become totally disabled and unable to work.

<sup>1</sup> National Center for Health Statistics, *Health Insurance Coverage: United States, July 1962-June 1963*, (Series 10, No. 11), p. 17.



The social insurance approach seems the most feasible method of providing adequate health insurance protection for the disabled. Without a social insurance program, public assistance cannot be expected to fill the gaps in health insurance coverage left by private plans. And even if public assistance could meet the health care needs of the disabled, it is not a desirable method of meeting a problem so extensive in scope.

Social insurance has in it the potential whereby dependency and poverty can be prevented; public assistance, on the other hand, is a way to alleviate them after they occur. When seeking aid under an assistance program the individual must submit proof that he is unable to meet his basic needs; eligibility for social insurance requires only a record of work and contributions. Social security benefits are financed in part from contributions made by covered employees, and benefits are paid as an earned right and in a way that maintains the individual's dignity and privacy. Social insurance, then, is an extension of one's independence, while public assistance requires an admission of dependence. Moreover, social insurance, with benefits provided without a means test, encourages the individual to supplement those benefits with savings or additional protection.

The social security cash benefit program has done much to alleviate severe poverty among the disabled; for it to be truly effective in helping disabled people to maintain their independence, some protection must be offered against the high costs of health care associated with disability. There are no doubt many disabled persons who must seek public assistance because of the disastrous effects of their health costs. Health insurance protection through the social insurance mechanism would remedy most of these situations and would enable people to get the health care they need, without sacrifice of their independence. Such health insurance protection would also assure that some disabled persons who otherwise would not receive the care they need could get such care.

Financing of the major health care costs of the disabled through the social insurance mechanism would leave it possible for private plans to offer meaningful complementary coverage and might make it financially possible for many of the disabled either to purchase supplementary insurance or to meet residual health care expenses from their own resources. Public assistance programs would, of course, still be a necessary part of the health care system for the disabled, helping those persons with special needs and those not adequately protected by social insurance and private means combined. The Council believes, though, that, however well operated, the assistance approach—with eligibility based on a determination of individual financial need and with the amounts of payments related to the extent of that need—is basically incompatible with individual dignity, self-respect, and other accepted values. Assistance should serve only as a backstop where private efforts and social insurance plans cannot meet the need.

# part 2/medicare protection for the disabled

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## **1. The existing hospital and medical insurance programs under title XVIII of the Social Security Act (Medicare) should be extended to those receiving social security monthly benefits on the basis of their disabilities.**

People who are now receiving social security benefits on the basis of a disability constitute a group of disabled in special need of Medicare protection. As has been noted, their utilization of health services is significantly greater than utilization by other segments of the disabled or nondisabled population. Their incomes are lower than those of other groups, to the extent that many of them are classified as “poor or near poor.” Moreover, because of the long period during which these people have not worked—72 percent of disability beneficiaries have been on the rolls for at least 2 years, and 25 percent have been on the rolls for at least 6 years<sup>1</sup>—less than half of them have any health insurance coverage.

<sup>1</sup> Based on unpublished tabulations of the Office of Research and Statistics, Social Security Administration.

The Council considered the fact that the people already on the social security disability rolls would not have contributed specifically toward the cost of a health insurance program that would provide benefits for them. The Council's belief is that, as was done with respect to hospital insurance for the aged, protection should be extended to this group of people without any requirement as to further covered employment or social security contributions.

Special attention was focused on the present Medicare structure, under which the medical insurance part of the program is on a voluntary basis. It was decided that medical insurance as well as hospital insurance should be extended to present disability beneficiaries without any optional provision for election of medical insurance coverage. Moreover, disability beneficiaries should not be required to meet a new test of eligibility for such protection, either with respect to work requirements or with respect to the definition of disability.<sup>1</sup>

Extension of Medicare to the disabled would provide protection against the cost of inpatient hospital care, extended care, home health services, physicians' services, and other medical items and services.

The Council considered whether the benefits provided under Medicare would be appropriate to the needs of the disabled and concluded that while Medicare does not cover the cost of the long-term care which some of the disabled may need, it does cover the types of care needed by most of those who are disabled. In this connection the Council noted that the greater utilization of health services by the disabled raises a question of whether the benefits and benefit limitations under Medicare would be appropriate to the needs of the disabled. It concluded, however, that this question should be the subject of further study, with a view toward consideration of such changes in the Medicare program for the disabled as might be indicated.

<sup>1</sup> To be insured for disability protection a worker must, in general, have been in covered employment for at least 5 years in the 10- year period ending with his disablement, and must also have been in covered work for a period equal to about one-fourth of the time after 1950 (or age 21, if later) and up to the time he becomes disabled. However, a worker disabled after reaching age 24 and before age 31 is insured if he has been in covered work during at least half of the calendar quarters after he attained age 21; a worker disabled before age 24 must have been in covered work during at least half of the 12 calendar quarters preceding disablement. As indicated previously, disability is defined as the inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.

**2. Hospital and medical insurance benefits for the present disabled, as well as for those who become disabled in the future, should be financed by contributions from employees, employers, and the self-employed, with a contribution from Federal general revenues equal to one-half the cost of the program.**

The Council endorses the contributory social insurance method for financing both hospital and medical insurance protection for the disabled.

Under the present Medicare program, only the hospital insurance part of the program is financed through payroll contributions paid by employees, employers, and the self-employed. The medical insurance part of the program is financed on a current-premium basis, with enrollees paying monthly premiums equal to half the cost of the medical insurance program, and the other half being paid out of general revenues. The Council recognized that in the absence of special circumstances, it is both desirable and fair that all of those entitled to a specific benefit should be subject, to the extent possible, to the same provisions. On this basis, it might seem on first examination that, like the elderly who are already covered by Medicare, the disabled who elect to enroll in the medical insurance plan should pay monthly premiums equal to half the cost of the protection they receive. However, since the per capita cost of providing medical insurance to the disabled is estimated to be three times the cost of insuring the aged, inclusion of the disabled in the medical insurance plan on a current-premium basis raises such difficult problems that inclusion on this basis would clearly be inappropriate and indeed self-defeating in meeting the health needs of the disabled. If the disabled were required to pay half the cost of this protection, many of those who most need the protection might not be able to afford the high monthly premium. In addition some of the disabled—those in comparatively good health—might be able to meet their insurance needs at lower costs elsewhere, leaving only those who are high-cost risks in the plan. This would, of course, result in even higher premiums, which would tend to reduce enrollment still further. The Council found that it would be inequitable to require aged medical insurance enrollees to bear the burden of the added cost of insuring the disabled. On the other hand, while the Federal Government might contribute more than half of the costs of the medical insurance for the disabled, while continuing to match half of the costs for the aged, serious questions could be expected about the appropriateness of this approach.

In the Council's judgment, the preferred solution to the problem is for both medical and hospital insurance for the disabled to be financed through the contributory social insurance system. The Council considers it desirable and appropriate that the costs of hospital and medical care insurance for the disabled be partly financed through contributions paid by the entire population at risk—the working population—and their employers, together with a Government contribution equal to half the cost of the protection.



This method of financing offers not only a broad financial base but also a mechanism through which workers can pay in advance toward the cost of the health insurance that they will have should they become disabled.

The Council regards the proposed cost allocation as the most satisfactory in view of the greater need of the disabled for this protection and the higher cost involved in providing the protection for them. The Council notes that sharing by general revenues of social insurance program costs is not uncommon among foreign social insurance systems. It believes also that the allocation is reasonable in view of the fact that under present law general revenues are used to pay half the cost of medical insurance for the aged and all of the cost of providing hospital insurance protection for the “transitionally insured”—older people who are not insured for cash benefits and who qualify for hospital insurance under a special transitional provision.

Financing medical insurance for the disabled, as well as hospital insurance, through the social security system has several additional advantages. First, if the social security system is used—rather than current-premium financing—protection could be made available to the disabled on a retroactive basis. In the opinion of the Council, this would be especially important, owing to the fact that in many cases a determination of disability will be made some time after a person is first eligible for Medicare. Availability of retroactive benefits would assure equal treatment of beneficiaries instead of differential treatment based on the accident of the length of time needed for the administrative procedure of determining eligibility. Under the hospital insurance part of the present Medicare program, eligibility provisions allow the earliest possible coverage, including up to 12 months retroactive coverage (from the date of a person’s application); under the medical insurance part of the program, because of the current-premium nature of the financing, it is not practical to have retroactive coverage, and none is provided. The Council does not believe there is any way in which medical insurance could be made available to the disabled over even a limited retroactive period if the program were financed on a voluntary basis.

The Council also notes that financing medical insurance for the disabled through the contributory social security system would result in administrative savings; the need for premium billing, collections, and recordkeeping, initial and general enrollment periods, and various determinations concerning the time at which coverage starts and is terminated would be eliminated for this group. The greater simplicity of the program should also lead to greater understanding on the part of disabled beneficiaries of their rights under the program.

**3. Instead of the 6-month waiting period required in present law for receipt of social security disability benefits, a 3-month waiting period should be required for hospital and medical insurance benefits. The requirement in the cash-benefit program that a disability must have lasted or be expected to last for at least 12 months or to end in death should not apply in the case of Medicare benefits.**

A waiting period of 6 full calendar months (as now required for cash disability benefits <sup>1</sup>) would be inappropriate for the purposes of Medicare protection. A waiting period this long would withhold protection when medical care costs press most urgently and when the psychological attitude of the disabled worker is crucial.

A waiting period of 3 full calendar months, on the other hand, would be reasonable and appropriate for Medicare purposes. Private insurance based on past employment frequently covers hospital and medical costs during the first 3 months after disablement. After 3 months of total disability, however, many severely disabled persons have lost their insurance coverage. Others may soon lose protection if they do not convert their group coverage to individual coverage, which they may not be able to afford. A 3-month waiting period would ensure continuity of protection for many disabled workers.

Making Medicare protection available beginning after the third month of disability (rather than after the sixth month as is the case with social security cash benefits) should contribute to the early restoration of workers to gainful employment and thus should benefit the individual, his community, and the Nation. The Council anticipates that the earlier coverage would also result in savings to the social security cash-benefit program. For example, with prompt treatment some disabled workers who might otherwise become cash disability beneficiaries might recover before qualifying for cash disability benefits. For others, medical restorative services started early in the course of disability can be expected to shorten the period of disability and entitlement to cash disability benefits.

In view of the importance of early availability of treatment and services, the Council evaluated waiting periods shorter than 3 months for Medicare purposes. (Some members who supported a 3-month waiting period actually favored a much shorter waiting period requirement.) The Council took into account that, in addition to the increased cost, serious administrative problems would be encountered with a shorter waiting period. Reliable medical evidence in many cases would not yet be available. It would be quite difficult in the general case to reach reliable decisions within a period of less than 3 months as to whether or not the impairment meets the

<sup>1</sup> Disability insurance benefits cannot begin until after the worker has been disabled throughout a waiting period of 6 consecutive calendar months. Thus, if a worker becomes disabled on, say, January 10, his waiting period extends from February 1 through July 31; his first benefit check would be for August, and would be payable early in September. No waiting period is required for the worker who again becomes disabled within 5 years after a previous qualifying disability ended. Disabled widows and widowers must also serve a 6-month waiting period. Adult sons or daughters disabled since before age 18 are not required to serve a waiting period. However, benefits based on childhood disability are not payable until attainment of age 18, and most of these individuals became disabled at or soon after birth.

required level of severity. The Council believes that a thorough exploration and study of the question of a waiting period shorter than 3 months and of possible solutions to these complex administrative problems is warranted.

The Council could find no justification for adopting in the Medicare program the present requirement under the cash-benefit program that total disability must have lasted or be expected to last 12 months or to end in death. Such a requirement for Medicare purposes seems unnecessary and undesirable. The worker who has been totally disabled throughout 3 calendar months may have been without earnings for a substantial period. The problem of meeting day-to-day living expenses is compounded by high medical care costs that can generally be expected to continue for some time.

It is clear that proper administration of the recommended program would be greatly hampered if the program included a requirement that the disability must be expected to last a specified length of time that is longer than the waiting period. Many workers who are totally disabled for as long as 3 months will continue to be disabled much longer. But in many cases evidence sufficient for a reliable prognosis is not available after only 3 months of disability. Providing Medicare protection as of the end of the waiting period without regard to how much longer the disability might last would facilitate prompt determinations of eligibility and facilitate administration in general.

In order that the objectives of the shorter waiting period may be accomplished, disabled persons, as well as providers of services, should know in as many cases as possible by the beginning of the fourth calendar month of disability whether or not they will qualify for Medicare protection. Retroactive benefits obviously have relatively limited value in assuring early treatment of disabilities. This is a major reason for the Council's recommendation that the requirement that disability must have lasted or be expected to last at least 12 months be made inapplicable for purposes of Medicare protection. If such a requirement were retained, it would be virtually impossible in many cases to make prompt and reliable decisions and to provide early notification to the applicant. (The need for timely decisions and notifications also contributed to the Council's decision in favor of a 3-month waiting period rather than a shorter one.)

The Council believes that people who become eligible for social security cash benefits based on their own disabilities should have eligibility for Medicare protection continued for a period beyond the time they are eligible for cash benefits. (In general, cash disability benefits are continued through a trial-work period of 9 months and for a period of 2 months after the month in which the beneficiary no longer meets the social security definition of disability.) The Council recommends that Medicare protection be continued for 6 months after the last month for which the beneficiary is entitled to monthly cash benefits on the basis of his disability. This recommendation takes account of several factors. Workers who have had severe long-term disabilities may have difficulty in obtaining private insurance



coverage when they recover. Many private insurance policies impose waiting periods with respect to pre-existing conditions. Also, some individuals who leave the disability rolls become disabled again within a short period of time. The Council believes that people in this latter category should be eligible for Medicare in the first full calendar month of their subsequent disability if this subsequent disability occurs within 60 months after they were last entitled to cash disability benefits.<sup>1</sup>

For people who are not eligible for cash disability benefits but who are eligible for Medicare under the Council's proposal, Medicare protection should continue for 2 months following the month in which the individual ceases to meet the social security definition of disability. The 2-month extension of Medicare would take account of the fact that these people, like social security cash beneficiaries, may not be able to obtain private insurance protection immediately after they recover from their disabilities. At the same time, it recognizes that some of these individuals will have relatively short-term disabilities and will have been entitled to Medicare for as little as 1 month when they recover.

**4. Older disabled workers should qualify for Medicare protection on the basis of less severe disability than is required under present law for eligibility for cash benefits. Insured workers aged 55 and over should be eligible for Medicare if they are so disabled that they can no longer engage in substantial gainful activity in their regular work or in any other work in which they have engaged with some regularity in the recent past.**

The Council was concerned about the situation of the older handicapped worker who—even though he has a serious impairment—does not meet the present social security definition of disability applicable for cash benefits. Under the present definition (except for blind workers at age 55<sup>2</sup>) a person is disabled only if he is unable to engage in any substantial gainful activity. If this test of disability were applied for Medicare purposes to all workers regardless of age, many older workers who because of their disabilities can no longer perform their usual work would be denied protection. Many older workers cannot meet the present definition because they have the residual capacity to do some work.

<sup>1</sup> This would parallel the provision in present law under which the 6-month waiting period requirement is waived in those cases where an individual becomes disabled again within 5 years after his previous entitlement to disability benefits had ended. Where subsequent disability occurs after this 5-year period, the disabled individual must serve a 6-month waiting period.

<sup>2</sup> Blind workers aged 55 or older are "disabled" if they are unable because of this handicap to engage in substantial gainful activity requiring skills or abilities comparable to those required in any gainful activity in which they have previously engaged with some regularity and over a substantial period of time.



The Council's proposal that older disabled workers should qualify for Medicare protection on the basis of a less severe disability than is required under present law for cash benefits reflects the following considerations.

An impairment of a given level of severity generally has a greater effect on the older worker than on a younger worker, and a younger disabled worker stands a much better chance to recover and be retrained to engage in another type of work. Many employers are likely to prefer a nondisabled worker. The employer is also more likely to hire a younger disabled worker rather than an older disabled worker. Even those older workers who are fortunate enough to engage in work are likely to be working only part time or intermittently and at an earnings level significantly below their usual level before disability.

It can be expected that the older disabled worker will very likely incur substantial medical care costs when he has lost his regular job and is without earnings. In addition, if older disabled workers do not have health insurance protection through employment, they will generally not be able to purchase (or even to afford) private health insurance.

The Council therefore concluded that older disabled workers should qualify for Medicare protection if they are unable to engage in substantial gainful activity in their regular work or in any other work in which they had engaged with some regularity in the recent past.

In general, the conditions under which Medicare protection is terminated for other disabled persons should also apply in the case of workers age 55 and over who would be covered under the recommended special definition of disability. Thus, for those who may later qualify for cash benefits based on disability, Medicare protection would be terminated 6 months after the termination of cash benefits. For those individuals who do not later qualify for cash benefits based on disability, Medicare protection would end 2 months after the month in which the disability ended.

It may be desirable, however, to suspend Medicare protection when an older handicapped worker is actually doing substantial gainful work, whether or not this is his regular work. If he is working he may have health insurance through this employment. The worker's Medicare protection would begin again with the first month in which he is no longer performing substantial gainful work.

The Council believes that, after Medicare protection is extended to the disabled and experience under its provisions is acquired, a study in depth should be made to determine the adequacy of these provisions in meeting the medical care needs of older handicapped workers.

The Council believes that it would also be desirable to provide cash benefits for such older disabled workers, and to provide cash benefits for all disabled workers under the changes proposed in Recommendation No. 3 (involving reduction of the waiting period), but the Council recognizes that it was not charged with responsibility for recommending modification of the disability cash benefit

provisions and therefore has not made any recommendations concerning the cash benefit program.

**5. Disabled people who qualify for Medicare protection but not for disability benefits should be eligible to receive vocational rehabilitation services financed by the social security program on the same basis as people who qualify for disability benefits.**

A major objective of the social security disability provisions is to promote vocational rehabilitation of the disabled. All applicants for social security benefits based on their own disabilities are referred to State vocational rehabilitation agencies for vocational rehabilitation services so that as many of them as possible may be restored to productive activity. The 1965 social security amendments included provisions designed to enable more disabled beneficiaries to receive vocational rehabilitation services. The amendments provided for reimbursement from the Federal Disability Insurance Trust Fund and the Federal Old-Age and Survivors Insurance Trust Fund to State vocational rehabilitation agencies for the cost of rehabilitation services furnished to certain social security disability beneficiaries. For reimbursement to be made from the trust funds, there must be a reasonable expectation that the rehabilitation services provided will result in restoration of the individual to productive activity. The provision was enacted on the assumption that the money paid from the trust funds for rehabilitation would result in no net cost to the trust funds—that is, the savings in benefits that would otherwise have to be paid and the social security contributions paid on the earnings of those successfully returned to work would equal or exceed the cost of rehabilitation services. The total amount of reimbursement in any year may not exceed 1 percent of the total amount paid in benefits based on disability in the previous fiscal year.<sup>1</sup>

Protecting the disabled under Medicare against the cost of health care services will contribute much to this rehabilitation objective. The contribution would be even greater if disabled persons who qualify for Medicare protection were eligible to receive vocational rehabilitation services financed from the trust funds even though they do not become eligible for disability benefits. Services such as retraining and placement and vocational guidance and counseling are not covered by existing Medicare provisions and could help many disabled persons to an early and successful return to work. The Council therefore concluded that disabled persons qualifying for only Medicare protection (i.e., not for cash benefits) should also be eligible to receive vocational rehabilitation services, the cost of which would be reimbursed from the trust funds, along the lines of the existing

<sup>1</sup> In fiscal year 1968, the total funds available for rehabilitation services through reimbursement from the social security trust funds amounted to \$16,000,000, and about \$18,300,000 is available for fiscal year 1969. For fiscal year 1968, over 5,500 beneficiaries who have received rehabilitation services paid for by social security trust funds have been successfully rehabilitated—that is, have been returned to gainful work.

provisions for disabled beneficiaries. Financing would thus be provided for services that are furnished under a State plan for vocational rehabilitation services if there is an expectation that the services provided would result in savings to the trust funds. The Council recognizes that the total amount of reimbursement in a year—now limited to 1 percent of the total amount paid in benefits based on disability in the previous fiscal year—would not be sufficient to cover the cost of services furnished people who qualify for Medicare but not for cash benefit protection. (In fact, it appears to the Council that in the near future there will probably not be sufficient funds available from the trust funds to cover services for all of the cash disability beneficiaries who might qualify under the reimbursement provisions.) The Council recommends that the total annual amount available for reimbursement for vocational rehabilitation services be calculated as 1 percent of the total amount of benefits paid to the disabled—monthly cash benefits and Medicare benefits. This would provide an amount at least twice as large as is presently available for rehabilitation services.

The major part of the eventual savings to the trust funds resulting from vocational services furnished disabled persons can be expected to accrue to the Federal Disability Insurance Trust Fund. It thus seems appropriate that the major part of the costs of such reimbursement, including the costs for people who do not qualify for cash disability benefits, be financed from that trust fund. It also appears that some recognition should be given in the financing provisions to savings to the separate trust fund established for the Medicare-for-the-disabled program<sup>1</sup> because some people will be restored to productive life earlier and thus will not remain eligible for Medicare protection for as long as they might have without the rehabilitation services. The Council recommends that the Secretary of Health, Education, and Welfare be authorized to prescribe such methods and procedures as he may deem appropriate for determining the extent to which such reimbursement costs should be charged to the separate trust fund established for Medicare for the disabled.

**6. The “level-cost” of the Council’s recommendations is estimated at 0.80 percent of taxable payroll. In accordance with Recommendation No. 2 above, half of this cost, or 0.40 percent of taxable payroll, would be met from payroll contributions and the other half from general revenues.**

Under the present \$7,800 earnings base, the proposed Medicare program for the disabled would have a “level-cost” of 0.80 percent of taxable payroll—0.57 percent for the hospital insurance part of the program and 0.23 percent for medical insurance. Under the recommendations of the Council, half of the cost would be met from general revenues, so that the remaining cost to be financed by the contributions of workers and employers represents a level-cost of 0.40 percent of taxable payroll.

Referred to under Recommendation No. 6 below.

About 2½ million people—disabled workers, adults disabled since childhood, and disabled widows and dependent widowers—would be protected under the proposed program in the first year of operation, assuming that to be 1970. Under the proposal, about \$2,300 million—\$1,520 million for hospital insurance and \$780 million for medical insurance—would be paid in the first year of operation for benefits and administrative expenses.

A separate trust fund should be established for the proposed program. Into this trust fund would go the contributions of employees, employers, the self-employed, and the contributions from general revenues, and from it would be paid the benefits and applicable administrative expenses. Any available monies would be invested in the same manner as is now done for the existing social security trust funds, and the investment earnings would be available to assist in the financing of the program.

Appendix A, "Actuarial Report on Cost Estimates," gives further details on the concept of the "level-cost" as it is applicable to the financing of this program. This appendix also presents cost estimates for various alternative proposals considered by the Council.





# minority views and recommendations presented by mr. gillen/dr. larson/ mr. pettengill & mr. vaughn

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The aforementioned members of the Council respectively disagree with recommendations of the majority of the Council. Mr. Gillen, Dr. Larson, and Mr. Vaughn recommend instead:

(1) that the Medicare program be extended only to OASDI cash disability beneficiaries with health insurance benefits payable commencing on the 1st of the month following completion of 12 full calendar months of continuous disability, as disability is currently defined for cash benefits. In no event, however, would benefits commence more than 12 months prior to the date the individual files proper application for Medicare coverage with the Social Security Administration.

(2) that the supplementary medical insurance for such disabled, as well as the hospital insurance, be automatic rather than voluntary, with the entire cost of this extension to be handled through a separate trust fund and be financed by a payroll tax shared equally by employers and employees with the self-employed paying 75 percent of the combined tax on employers and employees. The "level-cost" of this approach is estimated at 0.45 percent of taxable payroll.

The rationale in support of these substitute recommendations is outlined below. Fundamental to this rationale is the belief that any

governmental program should cover only the long-term disabled and leave the needs of the short-term disabled (as well as certain of the long-term disabled) to be covered by the private sector or by title XIX in the case of the needy.

It should be noted that the Council was appointed June 29, 1968, and held its first meeting on July 18-19, 1968. Thus, less than 6 months were available to the Council for studying a complex topic and for making recommendations of great import to this Nation.

The Council found no definitive data on the extent to which the medical needs of the disabled were currently unmet. Among the voluminous documents presented to the Council there were suggestions that more rehabilitative work could and presumably should be done, but there was no way of measuring the degree to which an extension of Medicare to the disabled would stimulate greater use of rehabilitation or the portion of the cost thereof that would be paid by the Medicare benefits. Thus, the Council focused its attention primarily on the methods of financing existing medical care rather than on providing additional care.

The Council found essentially no data on how the disabled are currently financing the substantial medical care the data show they do receive. It was noted, however, that private health insurance plays a significant role in the early months of disability for most of the disabled, and, for some, continues to play an important role even after disability has lasted several years.

The Council reviewed both published and unpublished data from the 1966 Social Security Survey of the Disabled. As indicated in the report, this survey was based on personal interviews with approximately 8,700 noninstitutionalized adults under age 65 who considered themselves to have a work limitation due to a chronic health condition or impairment that had lasted for at least 3 months. Human memory being what it is, statistics based on such personal interviews are merely indicative rather than precise. The Chief Actuary of the Social Security Administration pointed out to the Council that apparently there had been serious underreporting in a similar survey of the aged which was made when the Medicare program for the aged was under consideration and that, as a result, the Government's original cost estimates for that program had been considerably underestimated. The Chief Actuary stated that in making estimates of the cost of extending Medicare to the disabled, he had endeavored to compensate for possible underreporting in the 1966 Social Security Survey of the Disabled.

In addition to its inherent weaknesses, the 1966 Survey's usefulness to the Council was further limited by the fact that data on medical expenses were not tabulated by the approximate length of time between the date disability commenced and the date the service was rendered, and by the fact that neither the existence of insurance nor the lapse thereof was tabulated by the applicable length of time the individual had been disabled. Thus, it should be noted that the 1966 Survey estimated that 48.8 percent of the "severely disabled" population had health insurance coverage may be understated and, in

any event, indicates insurance coverage status not at the date of disablement but at the date of the interview which occurred anywhere from 6 months to many years thereafter. Indeed, the respondents may have been disabled an average of 5 years at the time of the interview.

The Council was advised that some employers voluntarily continue group medical expense benefits as long as the disability lasts or until the individual becomes eligible for Medicare, whichever occurs first. Contract negotiations between employers in the automobile industry and the United Automobile Workers have resulted in employer-paid protection being continued for a period equal to the individual's seniority at the onset of disability, or for his lifetime if retired for age or disability.

Also, the Council was advised by some of its members that insurance company group medical expense contracts generally provide that insurance may be continued during a period of disability.

Furthermore, these contracts provide that, in the event insurance is discontinued during disability, the benefits will nevertheless continue to be payable after the date insurance is terminated for at least an additional 90 days, and up to 365 days in the case of major medical benefits. Thus, relatively few disabled workers under age 65 are likely to lose protection during the first year of their disability and the Health Insurance Council estimated that, as of December 31, 1967, at least 87 percent had private hospital expense insurance at the onset of disability.

The number of disabled persons under age 65 who will ultimately be without some medical expense coverage appears to be gradually decreasing. Yet, there is little doubt that an individual, who has become totally and presumably permanently disabled and has lost his insurance, has difficulty in obtaining new coverage at standard rates. Indeed, a few cannot obtain coverage at any rate. Hence, the alternative recommendations that have been made.

In conclusion, the extension of Medicare to the short-term disabled as proposed by the majority of the Council should not be adopted for the following reasons:

**1. It would duplicate much of the existing private medical expense insurance.**

- a. To the extent that private insurance did not adjust to avoid this duplication, a severe overinsurance problem could arise.
- b. To the extent that private insurance withdrew from this field, both the new Medicare beneficiaries and the providers of medical care might have to contend with a significant initial period of uncertainty as to whether the beneficiary's expenses would be covered by Medicare. In this connection, Table 5 of the HEW report entitled "Social Security Disability Applicant Statistics of 1965" indicates that of all those approved for cash disability benefits in 1965, only 20.8 percent were approved in the same year as they were disabled and only 50.8 percent were approved in the year following the year in which disability commenced.



**2. It would provide 3 to 5 months' temporary insurance coverage each year to at least 600,000 persons whose disabilities would last long enough to qualify for Medicare coverage but not long enough to qualify for cash disability benefits and for whom there is no evidence of a significant unmet need.**

This 600,000 is a figure about 1.7 times the number of workers who would newly qualify each year for cash disability benefits. The resulting increased administrative burden is obviously going to be very expensive overhead to add to the direct costs and seems unwarranted in the face of a lack of evidence of an unmet need for these 600,000 people.

**3. It would introduce general revenue financing for a strictly social insurance benefit and hence could undermine the sound self-supporting policy on which such benefits have been based in the United States.**

The Council did agree that the Medicare program would suffer a considerable degree of antiselection by the disabled beneficiaries if the supplementary medical insurance benefits (part B) were to be offered to them on a voluntary basis with a 50-50 percentage split of the cost between the disabled and the Government, as is now the case with respect to the aged. Thus, any extension of part B to any class or classes of the disabled as currently defined should be on an automatic enrollment and noncontributory basis. This would then make part B analogous to part A. Thus it would seem to require 100 percent payroll tax financing, the same as applies to part A and to all the other true social insurance benefits in the system. There would appear to be neither need nor justification for any general revenue financing once enrollment is made automatic.

Mr. Pettengill concurs with the rationale developed by Mr. Gillen, Dr. Larson and Mr. Vaughn and finds their substitute recommendations both logical and practical if the Federal Government is to enter the field of medical expense insurance for the disabled on a unilateral basis. However, Mr. Pettengill believes that the disabled can best be assisted in securing medical expense insurance through a partnership of private enterprise and government. Specifically, he recommends in lieu of any extension of Medicare, that the Federal Government assure the availability of adequate private medical expense insurance by having each State require at least certain carriers to offer specified coverage at a specified premium to all the uninsurables residing in that State. Such coverage would be designed so as not to duplicate any other coverage the individual might otherwise acquire and would be reinsured by all carriers licensed in the State with governmental subsidy of the premiums to keep the cost of such coverage within the financial reach of most of the uninsurables.

Mr. Pettengill believes that the advantages of his suggested approach are:

(1) that there would be no disruption of the thousands of private employee benefit programs now in existence;

- (2) that the cost should be less since only those unable to secure adequate medical expense insurance would be involved;
- (3) that all the disabled in need of insurance protection would be benefited rather than just those who have insured status under the social security program and cannot work (it is estimated that about 40 percent of the adult population under age 65 currently lacks insured status under the disability insurance part of the social security program); and
- (4) that the disabled would not be required to drop this insurance by reason of returning to work and hence might be more encouraged to try to return to work, which would be good for all concerned.



# appendix a

## actuarial report on cost estimates

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*Prepared by Robert J. Myers, Chief Actuary, Social Security Administration*

This appendix presents further details on the actuarial cost estimates for the recommendations of the Council and for a number of alternative proposals which were considered by the Council.

The measurement of long-range costs, consideration of which is essential for a program of this type, is accomplished by the use of the concept of level-costs. The term "level-cost" is defined as the present value of future disbursements, at a prescribed interest rate, over the 25-year period covered by the cost estimate, plus the present value of a fund at the end of the period equal to 1 year's disbursements then, divided by the present value of future taxable payrolls. Level-costs are thus expressed as percentages of taxable payroll. The term "present value" connotes discounting at interest.<sup>1</sup> It can be said, therefore, that a contribution rate equal to the level-cost of the benefit payments and the administrative expenses will be sufficient to support the particular program under consideration.

<sup>1</sup> As an example, the present value of \$1,000 due in 10 years, taking into account 3 percent interest, is \$744. The present value of a series of amounts payable at various future dates is the sum of the present values of each of the amounts.



Medicare benefit payments for the proposed categories that would be covered by the recommendations of the Council will increase for many years—not only in terms of dollars, but also as a percentage of taxable payroll. Estimates covering a 25-year future period are needed, therefore, to indicate the extent to which the cost will increase and to determine tax rates adequate to maintain the system on an actuarially-sound basis. Over this period, the benefit cost will rise, not only because of the increasing number of persons eligible for benefits, but more importantly also because of the likely increase in health care costs per unit of service. The latter have increased in the past significantly more rapidly than the general earnings level, and it is likely that this trend will continue for some years.

The cost estimates for the Medicare program recommended by the Council assume both rising general earnings levels and rising medical costs in the future. At the same time, it is assumed that the maximum taxable earnings base of \$7,800 remains unchanged over the 25-year period considered. This same approach is used in the cost estimates for the existing hospital insurance program. Increases in the general earnings level, when accompanied by parallel (or greater) increases in medical costs, result in higher costs relative to taxable payroll than if the earnings base were assumed to be increased from time to time to keep up to date with the general earnings level. The reason for this result is that, under these conditions, medical costs rise more rapidly than covered earnings, whose increase is “dampened” by the effect of the earnings base. Thus, the use of the assumption of no change in the earnings base is of a conservative nature and provides a margin of safety. If the earnings base is actually kept up to date in the future, and if the experience follows the various assumptions made, then the cost (measured against taxable payroll) would be significantly lower than shown by these estimates—perhaps by as much as 15 percent for the level-cost.

Based on data from the 1966 Survey of Disabled Adults, rough estimates were derived of the hospital and medical services utilization of disabled beneficiaries as related to the corresponding utilization of persons aged 65 and over. On the whole, the hospital utilization of the disabled was about  $3\frac{1}{4}$  times as high as for the aged, while the utilization of physician services was about  $2\frac{1}{2}$  times as high; this was taken into account in the cost estimates for the recommendations of the Council.

Also considered were the resulting effects of the various cost-sharing provisions and the likely differences in utilization for any additional disabled beneficiaries resulting from any reduction in the waiting period from the 6 months now applicable for cash benefits and resulting from any change in the definition of disability. It was assumed that those affected by a reduced waiting period would have significantly higher utilization during the time involved in such a reduced period and, conversely, that a less restricted definition of disability would involve lower utilization for the additional beneficiaries than for those under the present strict definition. Quite naturally, for any alternative involving a longer waiting period than 6

months, it was assumed that the utilization would be lower than would result under a 6-month waiting period.

The accompanying table presents actuarial cost data both for the proposal recommended by the Council and for a number of alternatives considered by the Council. It should be kept in mind that there are significant differences among the several definitions of disability for which figures are given. In brief, these definitions of disability can be summarized as follows:

- (1) *Present definition of disability*—Inability because of total disability to engage in any substantial gainful activity.
- (2) *Present definition of disability used for blind persons aged 55 and over*—Inability because of total disability to engage in substantial gainful activity requiring any skills or abilities comparable to those required in any gainful activity in which he had previously engaged with some regularity over a substantial period of time.
- (3) *“Partial” occupational definition*—Inability because of total disability to engage in substantial gainful activity in his regular work or in any other work in which he had engaged with some regularity in the recent past.
- (4) *“True” occupational definition*—Inability because of total disability to effectively perform his regular work.

The plan recommended by the Advisory Council has an estimated level-cost of 0.80 percent of taxable payroll. Half of this cost would, under the recommendations, be met from general revenues, and the remainder would come from payroll taxes. The payments from general revenues would be equal to, and payable at the same time as, the employer and worker taxes. They would be received by the trust fund which is specially established for the new program.

The financing, according to the estimates, could be accomplished by a level contribution rate on employers and employees combined amounting to 0.4 percent (and 0.2 percent from the self-employed). Alternatively, this rate could begin at 0.35 percent and be gradually graded up to an eventual 0.45 or 0.50 percent. A lower initial rate than 0.35 percent would not be possible, because the estimated first-year cost is almost 0.60 percent of taxable payroll (which would require an employer-employee contribution rate of 0.30 percent), and there would also have to be an allowance for contingencies and building up a moderate fund.

# cost estimates for medicare for disabled insured persons for various concepts of disability.

Numbers of people and amounts of payments in millions

Concepts		1970 Data				
Waiting Period <sup>a</sup>	1-year Prognosis of Duration	Level-Cost <sup>b</sup>		Number of Beneficiaries Protected <sup>c</sup>	Benefits Payments <sup>d</sup>	
		HI	SMI		HI	SMI
Present Definition of Disability						
24 months	Yes	.23%	.09%	1.05	\$ 610	\$ 310
12 months	Yes	.32	.13	1.31	850	440
*6 months	Yes	.38	.15	1.69	1,000	520
6 months	No	.39	.15	1.73	1,020	530
3 months	No	.47	.19	1.96	1,240	640
1 month	No	.83	.34	2.71	2,190	1,130
30 days	No	.95	.39	2.95	2,500	1,290
Present Definition before Age 55, Present "Blind" Definition after Age 55						
3 months	No	.54%	.22%	2.23	\$1,420	\$ 730
1 month	No	.96	.39	3.12	2,520	1,300
30 days	No	1.11	.45	3.50	2,920	1,510
Present Definition before Age 55, "Partial" Occupational Definition after Age 55						
**3 months	No	.57%	.23%	2.54	\$1,520	\$ 780
Present Definition before Age 55, "True" Occupational Definition after Age 55						
6 months	Yes	.49%	.19%	2.63	\$1,280	\$ 670
6 months	No	.50	.20	2.69	1,300	680
3 months	No	.68	.27	3.12	1,790	920
1 month	No	1.28	.52	4.17	3,370	1,740
30 days	No	1.57	.64	4.57	4,150	2,140

\* Definition for insured workers for cash benefits of present law.  
 \*\* Recommendation of Advisory Council.  
<sup>a</sup> Waiting periods stated in months are based on *full* calendar months.  
<sup>b</sup> As percentages of taxable payroll (at \$7,800 base).  
<sup>c</sup> Average number during year.  
<sup>d</sup> Including administrative expenses.  
 Note: See text for description of various definitions of disability.

# appendix b

## 1966 social security survey of disabled adults

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*Prepared by the Division of Disability Studies, Office of  
Research and Statistics, Social Security Administration*

More than one-sixth of the civilian noninstitutional population of working age were limited in their ability to work because of a chronic health condition or impairment in 1966. A major proportion of the waste of manpower through involuntary nonparticipation in the labor force, unemployment, and underemployment may be attributed to disability. Public income-support programs provided income for a majority of the severely disabled, but two-fifths of the severely disabled men are neither employed nor receiving wage-replacement income. Although three-fifths of the severely disabled women received no public support or wage-replacement income, they are as a group less dependent than men on earnings and earnings' replacement programs.

Disability causes substantial losses of earnings and family income. Public programs designed to offset the wage losses of disability paid out more than \$8 billion in cash benefits and assistance to the disabled and their dependents in 1966. Wage-replacement benefits provide only a fraction of the income available from earnings, however, and they are in many cases, below minimum budgetary standards of adequacy. For the disabled individual, his family, and society, disability is a social and economic problem of major dimensions.



A national survey of disabled adults was conducted by the Social Security Administration to examine the major economic, occupational, and other social consequences of disability and to evaluate the social insurance provisions for disability.

The following papers describe the methods and procedures used in the 1966 Survey of Disabled Adults and the data presented to the Advisory Council on Health Insurance for the Disabled.

#### *Published Reports*

Report No. 1: Lawrence D. Haber, "Identifying the Disabled: Concepts and Methods in the Measurement of Disability," *Social Security Bulletin*, December 1967

Report No. 2: Lawrence D. Haber, "Disability, Work, and Income Maintenance: Prevalence of Disability, 1966," *Social Security Bulletin*, May 1968

Report No. 3: Lawrence D. Haber, "The Effect of Age and Disability on Access to Public Income-Maintenance Programs: 1966 Survey of Disabled Adults," Division of Disability Studies, ORS, SSA, July 1968

Report No. 4: Mildred E. Cinsky, "Health Insurance Coverage of the Disabled," Division of Disability Studies, ORS, SSA, August 1968

Report No. 5: Gertrude L. Stanley and Idella G. Swisher, "Medical Care Utilization of the Disabled," Division of Disability Studies, ORS, SSA, January 1969

#### *Reports in Preparation*

Lawrence D. Haber, *Major Disabling Conditions*

Idella G. Swisher, *Income of the Disabled*

Robert Cormier, *Medical Care Costs of the Disabled*

Table A (page 36) presents selected characteristics of disabled worker beneficiaries and childhood disability beneficiaries for: age at onset, race, marital status, veterans' status, education, region, diagnosis, functional limitations, work experience, current employment and occupation, employment and occupation at start of disability, and a measure of the adequacy of unit income. The table also includes data on severely disabled nonbeneficiaries.

**table a**  
**selected characteristics**

Selected Characteristics	Total Childhood Disability Beneficiaries			Total Disabled Worker Beneficiaries			Severely Disabled Nonbeneficiaries		
	Total	Men	Women	Total	Men	Women	Total	Men	Women
Total number (in thousands)									
Total	136	67	69	842	624	217	4475	1509	2966
Age									
Total percent	100	100	100	100	100	100	100	100	100
18-21	7	10	4	..	..	..	3	5	2
22-24	8	8	7	..	..	..	3	4	2
25-34	29	33	25	2	2	3	9	7	9
35-44	32	32	32	8	8	9	21	17	24
45-54	21	12	30	27	26	28	27	27	27
55-64	4	5	2	63	64	60	37	41	35
Median Age	37	35	39	57	58	57	50	52	50
Age at initial onset of disability									
Total percent	100	100	100	100	100	100	100	100	100
Under 18	86	87	86	4	4	5	16	19	15
18-34	7	9	6	14	13	17	27	23	29
35-54	4	1	7	60	61	58	46	45	46
55-64	1	1	..	22	23	21	11	12	10
Not reported	1	1	2	*	*	..	1	1	1
Color									
Total percent	100	100	100	100	100	100	100	100	100
White	88	88	88	86	86	85	78	80	77
Nonwhite	11	12	12	14	14	15	22	20	23
Marital status									
Total percent	100	100	100	100	100	100	100	100	100
Married-spouse present	1	1	1	71	77	55	63	58	66

Widowed	1	0	2	8	5	19	8	3	11
Divorced, separated	..	0	1	11	10	15	13	12	14
Never married	98	99	97	9	8	12	15	27	9
<i>Veteran status (men only)</i>									
Total percent	..	100	..	..	100	..	..	100	..
Veteran	..	2	..	..	26	..	..	28	..
Nonveteran	..	99	..	..	74	..	..	72	..
<i>Education</i>									
Total percent	100	100	100	100	100	100	100	100	100
Less than 8 years	77	75	80	38	43	24	36	45	31
8 years	10	12	7	20	21	18	16	18	15
High school (1-3 yrs.)	4	3	4	19	16	26	20	14	23
High school (4 yrs.)	6	6	6	15	13	23	17	10	20
College	1	..	1	7	6	9	10	12	9
Not reported	2	3	2	*	..	..	1	1	1
Median number of years	2	2	1	8	8	10	8	8	9
<i>Region</i>									
Total percent	100	100	100	100	100	100	100	100	100
Northeast	21	18	23	22	20	28	18	13	20
Northcentral	30	31	29	22	22	24	24	23	24
South	40	40	42	40	43	33	42	47	40
West	8	10	6	15	15	15	16	16	16
<i>Diagnosis</i>									
Total percent	100	100	100	100	100	100	100	100	100
Infective and parasitic diseases	1	..	1	2	3	*	1	1	1
Neoplasms	..	..	..	2	2	3	3	3	3
Allergic	1	1	1	5	4	6	9	6	11
Mental	55	58	52	7	6	9	10	15	8
Diseases of the nervous system	21	18	23	18	18	17	9	10	9
Diseases of the sense organs	4	3	4	5	4	6	3	3	2



Selected Characteristics	Total Childhood Disability Beneficiaries			Total Disabled Worker Beneficiaries			Severely Disabled Nonbeneficiaries		
	Total	Men	Women	Total	Men	Women	Total	Men	Women
Circulatory disorders	3	1	4	32	33	29	23	17	26
Respiratory disorders	..	..	..	8	9	6	3	5	2
Digestive system	..	..	..	2	2	2	6	6	6
Genito-urinary trouble	..	..	..	1	1	1	3	2	3
Bones and organs of movement	7	9	4	19	18	21	27	28	26
All others	8	7	9	1	1	1	2	3	2
<i>Functional limitations</i>									
Total percent	100	100	100	100	100	100	100	100	100
I—No loss	9	12	6	5	6	3	16	19	15
II—Minor loss	4	6	3	13	12	14	27	23	29
III—Moderate loss	7	10	4	19	22	12	19	20	18
IV—Severe loss	1	..	3	17	17	15	11	12	11
V—Functionally dependent	78	72	84	46	43	56	27	26	27
<i>1965 Work experience</i>									
Total percent	100	100	100	100	100	100	100	100	100
No work in 1965	90	84	97	85	82	93	62	49	69
Never employed	85	75	94	1	1	1	14	11	16
Not employed in 1965	6	9	3	84	81	91	48	38	53
Worked in 1965	9	15	3	11	13	4	35	47	28
Full-time all year (35 + hrs.—50 + wks.)	1	3	..	1	1	..	2	4	*
Full-time (26-49 weeks)	..	..	..	1	1	*	5	9	3
Part-time (26 weeks or more)	4	6	3	3	4	*	14	19	11
Intermittent (less than 26 weeks)	2	4	..	7	8	3	15	15	14



Selected Characteristics	Total Childhood Disability Beneficiaries			Total Disabled Worker Beneficiaries			Severely Disabled Nonbeneficiaries		
	Total	Men	Women	Total	Men	Women	Total	Men	Women
Employed in year of onset or last employed in year before onset	3	3	2	91	94	85	55	74	46
Last employed 2 or more years before onset	..	..	..	2	2	4	15	4	21
Not reported employment before onset	*	1	..	1	1	*	1	*	1
Occupation at start of disability									
Total number	3	2	2	769	586	183	2465	1115	1350
Total percent	**	**	**	100	100	100	100	100	100
Professional and technical Managers, officials, and proprietors	..	..	..	3	2	5	6	3	8
Clerical	..	..	..	6	7	4	5	7	3
Sales	..	..	..	8	3	22	6	3	8
Craftsmen and foremen	..	..	..	3	2	7	5	5	5
Operatives	..	..	..	22	28	2	9	18	1
Farm managers	..	..	..	31	31	34	23	24	22
Farm laborers	..	..	..	3	4	1	3	7	*
Private household Service	..	..	..	3	3	*	5	4	6
Laborers	..	..	..	2	..	7	11	1	19
Not reported	..	..	..	9	11	16	14	8	19
	..	..	..	9	11	1	7	14	*
	..	..	..	2	3	2	7	6	8

Adequacy of income <sup>1</sup>Total number of units <sup>2</sup>

(in thousands)

	1965	1967	1969	1984	1989	1999	2006
Total percent	136	67	69	849	650	199	3478
0-50% of poverty index	100	100	100	100	100	100	100
51-75	80	78	84	14	15	12	41
76-90	14	15	12	20	19	25	14
91-100	2	3	1	9	10	8	5
101-110	1	1	1	6	6	5	3
111-125	*	..	*	4	4	2	2
126-150	2	2	1	6	7	3	4
151 or more	..	..	..	9	9	11	6
Median	1	1	..	31	30	36	32
	32	32	30	103	101	109	80

<sup>1</sup> SSA Poverty Index: 1965 income received as percent of low cost budget standard.<sup>2</sup>The disability unit consists of the disabled adult, a spouse if married, and any unmarried children under age 18.

\* Less than 0.5 percent.

\*\* Percentages not computed when population base is less than 25,000.

Percentages computed on rounded numbers.



### *The Social Security Survey of Disabled Adults: Technical Note*

Under the old-age, survivors, disability, and health insurance (OASDHI) program, disability benefits are provided to severely disabled adults with extensive work experience in covered employment and to adults disabled since childhood who are dependents of retired, disabled, or deceased insured workers.

In 1966 the Social Security Administration undertook a major national study of disability. The study population includes all disabled adults aged 18-64 in the United States. The study has several objectives:

- to describe the prevalence, nature, and extent of work-limiting disability
- to examine the relationship of antecedent and onset factors to the severity of the disability and the subsequent work experience
- to examine the effect of the severity of the disability on income and income sources, occupation and work adjustments, medical care, rehabilitation, and family relationships and activities
- to examine the relationship of the public income-maintenance programs, in terms of the populations “selected by” or benefiting from the provisions of these programs—including, for example, comparison of the characteristics of disabled OASDHI beneficiaries, disabled adults receiving support from other income-maintenance programs, and disabled adults with no income from public income-maintenance programs
- to examine alternative program provisions for disability and work experience requirements.

#### *Study Design*

The study is being conducted through two surveys, a household survey for the noninstitutionalized population and an institutional survey. Field work for the survey of the noninstitutionalized adult population was carried out by the Bureau of the Census during the spring of 1966.

The Survey of Disabled Adults is based on a multiframe area probability sample design, selected to be representative of the noninstitutionalized civilian population aged 18-64 of the United States. The survey was conducted in two stages: first, to screen the population aged 18-64 for people with health-related limitations in their ability to work or do housework whose condition had lasted longer than 3 months; second, to verify the disability statement and to collect data on the nature, severity, onset, and duration of the disability, current and past labor-force status and work experience, medical care, rehabilitation services, income and income sources, assets, family relationships and activities, and demographic characteristics. The first stage was conducted by mail questionnaire. The second stage was conducted by interview. The Bureau of the Census was responsible for data collection and processing.

The survey sample was selected from a 243 first-stage area design, combining the Census Bureau’s Monthly Labor Survey (MLS) and

Current Population Survey (CPS) primary sampling units. Approximately 30,000 households were selected from seven population frames, including 18,000 sample households from the CPS and MLS, 2,000 OASDHI disability beneficiaries, 1,700 persons receiving public assistance because of disability, and 8,000 persons whose application for OASDHI disability benefits has been denied or disallowed.

The disability identification questionnaires were mailed out during February-March 1966. There were two certified mail follow-ups for nonresponses and personal interview callbacks for a subsample of the remaining nonresponses. A subsample of disabled persons stratified by extent of limitations was selected for interview. The completed survey sample includes approximately 8,700 disabled adults who were interviewed by Census enumerators during April-May 1966.

#### *Survey Definition of Disability*

Disability is defined in this study as a limitation in the kind or amount of work (or housework) resulting from a chronic health condition or impairment lasting 3 or more months. The extent of incapacity ranges from inability to perform any kind of work to secondary limitations in the kind or amount of work performed. The disability classification is based on the extent of the individual's capacity for work, as reported by the respondent in a set of work-qualification questions. Data on employment and on functional capacities—such as mobility, activities of daily living, personal care needs, and functional activity limitations—were also collected to evaluate the nature and severity of the disability.

The severity of the disability was classified by the extent of the work limitations:

- ☐ Severely disabled—unable to work altogether or unable to work regularly.
- ☐ Occupationally disabled—able to work regularly, but unable to do the same work as before the onset of disability or unable to work full time.
- ☐ Secondary work limitations—able to work full time, regularly and at the same work, but with limitations in the kind or amount of work they can perform; women with limitations in keeping house, but not in work are included among those with secondary work limitations.

#### *Reliability of the Estimates*

Since the estimates in this report are based on a sample, they may differ somewhat from the figures that would have been obtained if all disabled adults in the United States had been surveyed using the same schedules, instructions, and interviewers. As in any survey work, the results are subject to error of response and reporting as well as to sampling variability. The standard error is primarily a measure of sampling variability, i.e., the variations that occur by chance because a sample rather than a whole population is measured. As calculated for this report, the standard error also partially includes the effect of

response variation but does not measure systematic biases in the data. The chances are about 68 out of 100 that an estimate from the sample would differ from a complete census figure by less than the standard error. The chances are about 95 out of 100 that the difference would be less than twice the standard error.

#### *Sampling Variability*

Rough approximations of the sampling variability of some selected figures have been prepared to provide a general indication of the order of magnitude of the sampling variability for the estimated numbers and percentages presented in this report. A tabulation and estimation program is being developed to provide, at moderate cost, a set of standard errors that will be applicable to a wide variety of items. Both the rough approximations shown in the reports listed above and the additional work now in progress involve a number of simplifying assumptions. Thus, these standard errors provide an indication of the order of magnitude rather than the precise standard error for a specific item.

#### NOTE:

The population studied includes all persons aged 18-64 in the civilian noninstitutional population in March 1966. Estimates of the U.S. civilian noninstitutional population were obtained from special tabulations of the February-March Current Population Survey, the *Current Population Reports* of the Bureau of the Census, and the *Special Labor Force Reports* of the Bureau of Labor Statistics. Data on the civilian noninstitutionalized disabled population aged 18-64 were obtained from the 1966 Survey of Disabled Adults. Estimates of the nondisabled population were obtained by subtracting the disabled population from the U.S. population. The disabled population includes adults disabled for longer than 6 months.







health insurance  
benefits  
advisory council  
annual report  
on medicare

covering the period  
july 1, 1966  
december 31, 1967

U.S. DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE  
SOCIAL SECURITY ADMINISTRATION  
BUREAU OF HEALTH INSURANCE  
JULY 1969



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# letter of transmittal

The Honorable Robert H. Finch  
Secretary of Health, Education, and Welfare  
HEW North Building, Room 5246  
330 Independence Avenue, SW.  
Washington, D.C. 20201

Dear Mr. Secretary:

The Health Insurance Benefits Advisory Council herewith submits for transmission to the Congress its first annual report as required by the Social Security Amendments of 1967.

The Social Security Amendments of 1965 which authorized the Medicare program established the Health Insurance Benefits Advisory Council (HIBAC), composed of individuals drawn from fields related to hospital, medical, and other health activities and from the general public. HIBAC was charged with advising the Secretary of Health, Education, and Welfare on matters of general policy in the formulation of regulations and the administration of the Medicare program.

HIBAC participated in almost every stage of the massive undertaking which, in a very short space of time, turned a complex piece of legislation into a reality, providing hospital insurance benefits to 20 million people and voluntary medical insurance to 19 million. And it has continued to participate in the three years since the program got underway. It has been kept aware of every aspect of the Medicare program and has advised on general policies, regulations, and administrative procedures.

In the Social Security Amendments of 1967, the Congress added several new responsibilities to HIBAC's charter:

*First*, it transferred to HIBAC the responsibilities of the National Medical Review Committee provided in the 1965 Medicare legislation. This Committee was to study the utilization of hospital and other medical services included under Medicare with a view to recommending improvements in the way such care and services are utilized, either through changes in program administration or in legislation. Because it soon became clear that the duties of this Committee would extensively overlap those of HIBAC, the Committee was never appointed. The 1967 amendments consolidated the functions of this Committee under HIBAC. *Second*, HIBAC was charged with delivering to the Secretary, for transmission to the Congress, an annual report on its operations under the law, including recommendations for needed changes in program administration or for legislative provisions.

The Council has spent a full year in a review of the major aspects of the Medicare program, giving particular attention to problems of the quality and appropriate utilization of health services. It has also devoted attention to the problem of rising medical and hospital costs, insofar as these have been or could in the future be affected by the way in which Medicare is administered. In many cases our findings have suggested changes in regulations or administrative procedures. In such cases the Council has communicated its recommendations to Department officials charged with operating the program, and a number of significant improvements have been instituted by regulations and administrative practice. In other cases the Council has found that legislative changes are required, and the enclosed report proposes such changes.

There are also a number of areas where, the Council believes, significant program improvements may be possible, but to which further study needs to be devoted before specific recommendations are warranted. The report calls attention to these areas.

During its deliberations on the content of this report, the Council achieved a remarkable degree of unanimity with respect to the recommendations for administrative or legislative revisions in the program. However, it should also be understood that there were differing views within the Council with respect to questions of emphasis and priority.

Finally, the Council has not attempted to be comprehensive in its review of the program. It has chosen to concentrate its efforts

particularly on matters of the quality, utilization, and cost of care, rather than spread its resources thinly over every possible aspect of the program.

The enclosed report fulfills, the Council believes, the charge of the Congress to the Council.

On behalf of the Council, I would like to thank the numerous consultants who gave so freely of their time and energies in the deliberations which preceded the preparation of this report. And I would like to express appreciation to the staffs of the Social Security Administration and the Public Health Service for their continued support, not only in the preparation of this report, but for all of the Council's activities during the past years.

Sincerely,

Charles L. Schultze, Chairman  
Health Insurance Benefits Advisory Council

Enclosure





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# legislative recommendations

1. The Council recommends that after consultation with professional groups, the Secretary submit legislative proposals to the Congress that would enable the program to discontinue reimbursement for services of a physician or supplier when one or more of the following is found: evidence of fraud; repeated overcharging of the program or its beneficiaries; a pattern of rendered services substantially in excess of those justified by sound medical practice; persistent failure to cooperate with the program in clarifying cases which may involve excessive charges or services; or documented rendering of services or supplies which were harmful to beneficiaries or found to be grossly inferior by peer review.
2. The Secretary, in consultation with appropriate professional groups, should seek the development of feasible and desirable standards of eligibility for the rendering of various types of medical services by physicians under the Medicare program, and the administrative procedures necessary to enforce them with a view to recommending appropriate legislation to the Congress.
3. The Council recommends legislation which would remove the present limitations on the Secretary's authority to establish health and safety standards for hospitals, contained in Section 1865 of the Social Security Act, so that:
  - The Secretary would have the authority to establish health and safety standards for hospitals commensurate with his authority to establish such standards for other providers of services and for independent laboratories.
  - The Secretary may, in the case of any national accrediting body with standards and certification procedures equal to or higher than those established by the Secretary for a class of providers or independent laboratories, find that such ac-



creditation provides reasonable assurance that the conditions of participation are met.

4. The Council recommends that legislation be enacted which authorizes the Secretary, in addition to his option to recognize the findings of accrediting bodies, to arrange with State agencies to survey accredited facilities at intervals between accreditation surveys and, when finding deficiencies:
  - to convey this information to the accrediting agency; and
  - to report to the Secretary and make recommendations with respect to certification.
5. The Council recommends that the Secretary be given the legislative authority to develop and apply standards for Medicare covered ambulance services. These standards would cover the various types of ambulance and emergency equipment, qualifications and training of ambulance attendants, methods of communication and dispatch, and policies of agencies rendering ambulance services.
6. The Council recommends that legislation be enacted which would:
  - place all home health benefits under Part A, with a maximum eligibility of 200 visits per year;
  - remove the three-day hospital stay requirement for home health benefits;
  - provide for coinsurance for the second 100 visits per year.
7. The Council recommends that legislation be enacted which would require utilization review of home health services to become effective one year after the Secretary issues regulations.
8. The Council recommends that the general exclusion of immunizations from coverage under Medicare be deleted from the statute.
9. The Council recommends that the legislative requirement for the blood deductible be eliminated.
10. The Council recommends the enactment of legislation which would allow the participation of community mental health centers in the Medicare program.
11. The Council recommends that the 190-day lifetime limit on inpatient psychiatric hospital benefits be removed if a review of past experience shows that such removal would significantly

increase health benefits to Medicare beneficiaries, in relation to the costs involved.

12. The Council recommends that the legislative provisions relating to the incentive experiments should be broadened so that the Medicare, Medicaid, and Maternal and Child Health programs can participate in experiments which seek to achieve greater economy and efficiency by modifying health benefits and coverage in ways that may promote improvements in the organization and delivery of health services without increasing the costs of these programs.
13. The Council recommends that appropriate legislation be developed, to be effective when and where appropriate health facilities planning bodies become operational, which would assure that the reimbursement under Medicare would not be inconsistent with the plans and findings of these bodies. One method of insuring the rapid establishment of such planning groups would be the adoption of the recommendation by the Secretary's Advisory Committee on Hospital Effectiveness which would make Federal health grants to States conditional upon the establishment of planning bodies.
14. The Council recommends that legislation be enacted authorizing the Secretary to negotiate capitation reimbursement payments to group practice prepayment plans.



# administrative recommendations

1. The Council has recommended to the Secretary that quality standards and reimbursement levels be established in such a way as to, if at all possible, encourage the consolidation of laboratory services.
2. Consistent with the Council's belief that uniform standards should be applied to all classes and categories of clinical laboratories, it has recommended to the Secretary that the conditions for coverage of services of independent laboratories be revised to require satisfactory participation by all independent laboratories in proficiency testing programs acceptable to the Secretary.
3. The Council has recommended to the Secretary revision of the Medicare regulations to require that mail order laboratories develop and maintain procedures for evaluating the stability of specimens which are not stable to a degree sufficient to assure satisfactory clinical accuracy with respect to original values.
4. The Council believes that marketing standards may be required to assure that diagnostic laboratory equipment be of sufficient quality to produce accurate results, especially when operated by individuals not specifically oriented toward the practice of pathology. It has, therefore, requested that an expression of the Council's concern be transmitted to the Secretary, with a recommendation that a study of this problem be undertaken and evaluation made of the need for appropriate regulatory legislation, recognizing that this problem affects all patients, not only Medicare beneficiaries.

Also, the Council encourages and supports efforts and activities directed toward development of national standards relating to reagents, purified chemical substances, and standard reference methods for use in clinical laboratories.



5. The Council has recommended to the Secretary that in cooperation with organized medicine, survey mechanisms be developed to obtain data on the non-pathologist physicians who do their own laboratory work, the scope of such laboratory services, the kinds of personnel doing such work, and the results obtained.
6. The Council has no recommendations to make at the present time with respect to the major provisions for deductibles and coinsurance under Medicare.

The Council does believe that these provisions need further study and should receive the attention of the Advisory Council on Social Security, which will be appointed shortly to consider modifications in social security legislation.

7. The Council has recommended to the Secretary that additional efforts be taken to assure that the use of home health services is preceded by a thorough medical evaluation of the health care needs of the patient.
8. The Council has recommended to the Secretary that the regulations under Part A be amended to reduce the certification periods below the current 14 and 21 days, such as to 12 and 18 days.
9. The Council intends to follow the course of the incentive reimbursement experimentation program closely, and will make such recommendations as seem appropriate in view of how the program develops.
10. The Council strongly endorses the effort to secure more rigorous and uniform application by Part B carriers of the reasonable charge determination criteria, and has recommended that the Administration continue to move ahead vigorously in developing and carrying out measures designed to assure full application of the reasonable charge concept under the Medicare program.
11. The Council strongly supports efforts of the Social Security Administration to obtain the accurate definition and uniform reporting of medical services by clarifying and implementing the pertinent instructions to Part B carriers and by working with physicians and professional groups. The Council also urges that the profession support package charges where they are feasible rather than further fragmenting services and charges.
12. The Council has recommended to the Secretary that the Social Security Administration continue to exercise careful supervision over carrier and intermediary performance in the matter of

reasonable charge and cost determination and utilization safeguards. In reviewing performance of carriers and intermediaries when contract continuation is being considered, the Social Security Administration should place particular weight upon their performance in the field of cost control.

13. The Council also has recommended to the Secretary that the Social Security Administration undertake a study of how the concept of incentive reimbursement can be applied to carriers and intermediaries, so that outstanding performance can be rewarded and poor performance penalized, without the sole reliance on the "massive retaliation" of contract termination.

The Council supports the use of cooperation and persuasion to seek improvement among carriers and intermediaries, but in those cases where persuasion is unsuccessful and the agency fails to carry out the policy standards which are established, termination of the contract will have to be the avenue which is pursued.

14. The Council urges that ways be sought to provide the essential statistical information base as promptly, completely, and accurately as possible, taking into account, of course, the limitations on funds which are appropriate to the task.
15. The Council urges that, to the extent feasible, Medicaid programs delegate their functions to the organizations which perform analogous functions for Medicare.



# introduction

## The Medicare Program To Date

Medicare emerged from 20 years of discussion and controversy. While its advent was viewed with concern by a great many in the health field, the overall record to date can be viewed with a great deal of satisfaction.

In the short period between the end of July 1965, when the legislation was enacted, and July 1, 1966, when benefits under the program began, a major challenge was faced and conquered. Entitlement to hospital insurance benefits was established for almost 19 million people, virtually all those potentially eligible. Some 17½ million people, 90 percent of the eligible, were signed up for the medical insurance program. Conditions of participation for hospitals, extended care facilities, home health agencies and independent laboratories were developed. By July 1, 1966, 6,200 hospitals—containing about 97 percent of the short-term general hospital beds in the country—were participating in this program. Private insurance organizations were brought into the program to handle and audit claims. Beneficiaries were contacted and advised about the program, administrative staffs trained, and hospitals, doctors, and other providers of health service given the necessary information about Medicare.

Two-and-a-half years later, Medicare is operational and rendering a major service to the Nation's aged. Virtually all of the aged, by now some 20 million people, are protected by hospital insurance. The percentage of those eligible, who have voluntarily chosen to enroll in the medical insurance plan, has risen to 95 percent, and the number to 19 million people. By the end of 1968 there were 6,831 participating hospitals, 4,787 extended care facilities, 2,176 home health agencies, and 2,645 independent laboratories taking part in the Medicare program.

The program has stimulated the development and use of alternatives to hospital inpatient care—outpatient services, extended care, home health care, as well as physicians' services in the home or office. Through the breadth of its coverage, Medicare has facilitated the



physician's choice of the most appropriate level of care for the Medicare patient and thereby contributed towards making the health system a more effective instrument. The program has also given impetus to the development of quality standards and to their wide application to a variety of health services not previously covered by such standards.

Medicare payments for hospital care and physicians' services are estimated to account for about half of the expenditures for hospital care and physicians' services provided to the aged. However, for individuals with large medical expenses Medicare payments cover a much larger proportion of the total. While the population 65 and over is only about 10 percent of the total, its health care requires a disproportionate share of the Nation's resources of physician and hospital services. This group uses about 30 percent of the acute general hospital-bed days of the country.

Administrative costs have been kept reasonable. During the fiscal year ending June 30, 1968, administrative costs for hospital insurance were 2.1 percent of benefit payments and the administrative cost ratio for medical insurance was 10.3 percent of benefits. These administrative cost ratios compare favorably with those of comparable private hospital and medical insurance programs.

The requirement that providers of services comply with title VI of the Civil Rights Act in order to participate in the Medicare program has given to members of minority groups in some communities access to high quality hospital care that previously was barred to them. The effect of compliance activities has been salutary. At present, over 95 percent of the Nation's hospitals are participating in the program.

The Health Insurance Benefits Advisory Council has been impressed with the overall success of Medicare. The program has substantially fulfilled the hopes of its early supporters. But Medicare is a large and complex program. It deals with an enormously varied array of health services, provider institutions, and financial intermediaries. The legislative provisions and administrative regulations which govern the program may seem dry as dust—but they touch upon the health, indeed the very life, of 20 million Americans. As a consequence it is essential that the program be continually reviewed in a search for areas which need improvement. Moreover, precisely because it is involved with almost every aspect of health care, the way in which Medicare is carried out can have an important influence on the standards and practices of medicine generally.

The Council has been charged by the Congress, in the Social Security Amendments of 1967, with preparing an annual report, for trans-

mittal by the Secretary of Health, Education, and Welfare to the Congress; (1) reporting on its activities for the year, and (2) recommending such changes in the Medicare program as may seem desirable in the program. The Council, during the past year, has organized its activities principally around a review of the Medicare program, aiming towards a series of recommendations for program improvement. In a sense, then, the proposals and suggestions in this report, and the deliberations which lie behind them, constitute the Council's principal activities during the year.

## Objectives of Medicare

Medicare is an insurance program which seeks:

- to increase the ability of older people and their families to enjoy other aspects of life by removing, through an insurance program, the major financial burden associated with the purchase of health care; and
- to provide older citizens with access to high quality medical care and other health services.

The benefits provided by Medicare are not free. They are financed through payroll taxes, premiums paid by the beneficiaries, and general revenue contributions. As a consequence, employers, workers, taxpayers, and program beneficiaries all have a vital interest in the *efficiency* with which health services are provided under Medicare. Moreover, since Medicare accounts for a significant fraction of all the health services delivered in the United States, it cannot fail to have an important influence on the quality, quantity, and cost of health care enjoyed by the population at large.

## The Criteria for Evaluating Medicare

In the light of the underlying objectives of Medicare, and its impact on a large number of different groups in society, there are six major areas of concern which are relevant to a review of the program:

1. *The quality of health services provided to beneficiaries.* The Medicare insurance program finances the purchase of health services—it is not itself a supplier of health services—as a consequence, the quality of services provided to beneficiaries will broadly depend upon the overall quality and standards of health care which characterize American medical practice, hospitals and other health care institutions. At the same time, however, Medicare has the *obligation* to see that its beneficiaries receive high quality health care and, as a major source for the financing of the purchase of health care services, the *opportunity* to

encourage through its regulations and procedures further improvements in health care standards.

2. *The utilization of health services by beneficiaries.* Medicare must be concerned not only with the availability of high-quality medical care, but with its appropriate utilization. Are older people failing to obtain needed services, either because the services are not covered under the program or because, if covered, facilities to provide them are in short supply? Is excessive use of facilities encouraged by the benefit structure of the program? Are services being provided which are appropriate to the medical condition of the beneficiary?
3. *Financial provisions of Medicare—coinsurance, deductibles, and premiums.* In both the hospital insurance (Part A) and medical insurance (Part B) of the program, beneficiaries are called upon to pay part of the cost of health care. In the medical insurance program, beneficiaries also pay roughly one-half of the premium costs. These provisions must be evaluated from several standpoints: To what extent do they help avoid excessive use of health services and reduce program costs? To what extent do they inhibit beneficiaries from receiving needed care?
4. *The cost of health services.* Medical fees, hospital charges, and other health care costs have risen sharply in recent years. These increases have been a major concern to the American people, both as consumers of health services and as taxpayers who support Medicare and other programs. To what extent can the Medicare program be so conducted as to moderate these increases, and to minimize the impact of the program upon health care costs?
5. *The quality of program administration.* Well conceived objectives and high standards become reality only as the program is well administered. Quality and utilization standards, cost controls, prompt payment of benefits—these and all other important aspects of the program depend upon effective administration.
6. *Relationships with providers of health services and fiscal intermediaries.* The working relationships which Medicare enjoys with doctors, hospitals, extended care facilities, and other health care providers play an important role in program results. Medicare also depends heavily on health insurance organizations to act as intermediaries and carriers, for prompt and efficient benefit payments, for effective cost controls, and for monitoring of provider performance. At the same time, Medicare's first obligation is to its beneficiaries. It must, therefore, establish



working relationships with providers and insurance companies which maintain that primacy of interest, while responding to the legitimate concerns and problems of those providers and insurance companies. For example, are State agencies, fiscal intermediaries, and carriers held to adequate standards of performance? Are their controls over costs monitored and, when deficient, corrected?

In developing its recommendations, the Council has taken all of these various aspects of Medicare into consideration. However, it has not attempted to be all-inclusive in this initial report. Several important aspects of the Medicare program have been, or are being, reviewed by other groups—for example, the Department of Health, Education, and Welfare Task Force on Prescription Drugs and the Study on Financing Care of the Mentally Ill under Medicare and Medicaid. In view of this fact, and given the limited time and resources available, the Council has chosen to concentrate particularly, though not exclusively, upon problems relating to the *quality* and *utilization* of health services, and upon problems of rising *costs*. The legislative recommendations in this report fall principally in the area of quality and utilization. In the matter of controlling cost escalation, the Council has already made several recommendations to the Secretary, which are in the process of being carried out. The report describes these recommendations, and suggests other areas for action and study.

In its deliberations, and in drawing up its recommendations, the Council has tried to keep before it two major sets of facts about Medicare. On the one hand, this is an insurance program. It finances, for older people, the purchase of services from the providers of health care, most of whom also supply services to all other age groups in the population. As a consequence, Medicare by itself cannot exercise a dominant influence over costs and standards in the health care field. At the same time in exercising its obligations to beneficiaries in the provision of high quality medical care and its obligation to taxpayers in securing care at reasonable costs, Medicare can, in a limited but important way, indirectly affect the standards and costs of health care for the population at large. In short, the Council's recommendations reflect both the limitations and the opportunities of the Medicare program as an influence on the delivery of health care in the United States.





## major recommendations

### The Quality of Care

Because of the critical nature of their service, providers of health services are expected, and often required, to meet standards of performance far beyond those generally applied to providers of other services and products. For example, hospitals prescribe standards for acceptance of physicians on their medical staffs, and medical societies assume a responsibility to review physician performance and censure those found guilty of wrong-doing. The health profession's concern for quality of patient care is also reflected by medical specialty board programs, the voluntary programs of hospital accreditation, and a variety of professional registration and certification activities. In addition, some private health insurance programs have requirements which those furnishing services must meet to be eligible for payment.

### The Quality of Care in the Medical Insurance Program (Part B)

When a Government program such as Medicare is responsible for the payment of much of the care provided to a large portion of the population, the Council believes that program should have the authority needed to see to it that the care paid for meets appropriate quality standards. Unlike Part A of Medicare, however, Part B provides for payment for health services with only limited Government authority or responsibility for the quality of those services. The Secretary is authorized under this part to set standards for independent laboratories, suppliers of portable X-ray services, and outpatient physical therapy services, but has no similar authority for physicians' services. Even though M.D. or D.O. degrees by themselves signify adequate initial preparation to practice medicine, all physicians are not qualified to carry out every procedure performed in the various specialties. Moreover, experience under Medicare has produced evidence that a few physicians fail to perform in a professionally acceptable manner, and that gross abuses sometimes occur.

There are two kinds of problems to be faced in this area: *first*, the

development of more effective means to stop gross abuses in Part B of the program, and *second*, the development of standards which relate physicians' qualifications to the nature of the services performed under the program.

With respect to abuses, under present Medicare law an individual practitioner or supplier who habitually overcharges Medicare patients, or who regularly furnishes and bills for services in excess of those medically required, services of no medical value, or even services actually harmful to patients, may not be barred from payment under the program so long as he remains eligible to practice under State law. The only recourse currently available to the program to protect itself against unwarranted claims is to maintain close surveillance—and possibly to investigate each and every bill such a person may submit. Moreover, retroactive claims investigation offers no protection to beneficiaries in those cases in which harmful services are provided to patients. For example, a hospital's agreement might be terminated under Part A because of serious hazards resulting from the quality of physicians' services in it, over which the hospital's utilization review committee exercised no control. Despite this, the carrier must continue to receive and act upon claims for the services of these same physicians under Part B.

Abuses are not confined to overcharging, the rendering of excessive services, and the like. In addition, medical services have on occasion been delivered which are grossly *inferior* and *harmful* to the patient, as judged by commonly accepted professional standards. Here also, the Medicare program should have the authority to exclude from further participation physicians who have repeatedly rendered and billed for grossly inferior services. The Council believes that legislation should be enacted which places the necessary authority in the Department of Health, Education and Welfare to handle such situations. The Council also realizes, however, that the enactment of such legislation may depend upon the completion of prior study and consultation by the Department, sufficient to illustrate in specific instances what kind of performance standards and procedures would be put into effect under the new legislative authority.

*Recommendation 1:*

*The Council recommends that after consultation with professional groups, the Secretary submit legislative proposals to the Congress that would enable the program to discontinue reimbursement for services of a physician or supplier when one or more of the following is found: evidence of fraud; repeated overcharging of the program or its beneficiaries; a pattern of rendered services substantially in excess of those justified by sound medical practice; persistent failure to cooperate with*

*the program in clarifying cases which may involve excessive charges or services; or documented rendering of services or supplies which were harmful to beneficiaries or found to be grossly inferior by peer review.*

Prevention of gross abuses, through an "after the fact" exclusion from the program of persons who habitually engage in such practices is not the sole, or perhaps even the principal, means of insuring high-quality care of beneficiaries of medical insurance (Part B) under Medicare. We noted earlier that the Secretary has the authority *to set standards of participation* in the Medicare program for many providers of health services—hospitals, independent laboratories, etc. Providers who do not meet such standards are not eligible for reimbursement under the program. The Secretary has no such power with respect to physicians, who provide the bulk of the services under Part B.

The underlying facts of the situation are, of course, quite different in the case of physicians. A hospital, for example, either meets the standards for participation or it does not. In the case of physicians, a man who is licensed to practice medicine by his State licensing authority may indeed be assumed to be capable of rendering medical services to beneficiaries—barring the revocation of his license. But a practitioner by simple virtue of his license is not necessarily qualified to undertake highly specialized medical procedures. Nor can initial qualifications and licensure alone guarantee the practitioner's continuing ability, over an indefinite period, to furnish quality services.

In short the problem of quality standards in the case of physicians' services under Part B relates to performance and qualifications in the delivery of particular classes of services and to the long-term persistence of initial qualifications.

The Council believes that in order to provide an acceptable level of quality for the services rendered under Part B of Medicare, consideration should be given to establishing standards to govern the rendering of services by physicians, analagous to, but necessarily quite different in application from, the standards now established for most other providers of health care under Medicare. The need for broad standards for physicians' services is predicated upon the right and responsibility of the Government to have assurance of the acceptable quality of all services for which it provides reimbursement, the many other precedents in Government and non-Government programs, and published studies which point out the wide variability in quality of medical services.

*Recommendation 2:*

*The Secretary in consultation with appropriate professional*



*groups, should seek the development of feasible and desirable standards of eligibility for the rendering of various types of medical services by physicians under the Medicare program, and the administrative procedures necessary to enforce them with a view to recommending appropriate legislation to the Congress.*

The value of standards for physicians, related to the rendering of particular types of medical services, in insuring high-quality care for beneficiaries, must be balanced against the possibility of excessively rigid qualification standards and the creation of shortages in the supply of services. While the Council believes that such standards will prove to be both feasible and desirable, only intensive study, consultation with professional and consumer groups, and the actual drafting of particular standards will provide a final answer to this question.

With respect to Recommendations 1 and 2, the Council also believes that the legislative proposals should provide both administrative and judicial review procedures for physicians (which includes doctors of medicine, podiatry, dentistry, and osteopathy) and for suppliers considered for exclusion under this recommendation. Provision should also be made for indemnification of beneficiaries for charges incurred for the physician's services prior to notification of his disqualification. Standards and procedures should be developed by the Department of Health, Education and Welfare in consultation with the medical profession, and actions against individual practitioners should be preceded by consultation with local professional groups.

### **The Quality of Hospital Care**

Under present law, hospitals that are accredited by the the Joint Commission on the Accreditation of Hospitals (JCAH) are not subject to inspection by State agencies for Medicare purposes except to determine whether the utilization review requirements are met. Nonaccredited institutions are. Two kinds of problems are involved here: (1) the quality of the standards themselves, and (2) the quality of the inspection and certification procedures through which the standards are applied to individual cases. Under present law, in effect, the JCAH both sets the standards and certifies the individual hospitals for Medicare participation.

Initially Medicare's reliance on JCAH accreditation standards and certification procedures helped the new Federal program win the acceptance and support of the health professions and was beneficial to both the government and the health professions. The Council believes, however, that it is inappropriate to continue statutory delegation to a private agency of all the Government's authority to

safeguard quality of care paid for by a government program. The authority to establish policy on minimum quality should be retained by the Government. Quality standards under Medicare should not be controlled by a private agency's standards. Furthermore, the power of oversight and assurance that standards are applied adequately in individual situations should and must remain within both the responsibility and authority of the Government. In the case of Medicare, the Council has found reason for concern that JCAH standards are not applied with the frequency of inspection and range of inspector skills necessary to assure a high degree of effectiveness. Furthermore, because of present statutory provisions (Section 1865 of the Social Security Amendments of 1965), the JCAH standards in some cases impose an undesirably low ceiling on the maximum level at which health and safety standards under Medicare may be set. The Council believes that the JCAH has an important function to perform in establishing meaningful goals for hospitals, rather than the minimum standards which virtually all now meet. To the extent the JCAH successfully carries out the job of hospital goal-setting and showing hospitals the ways in which they should go in establishing the medical care system needed for the United States, the proper relation between Medicare standards and JCAH standards will emerge. Therefore,

*Recommendation 3:*

*The Council recommends legislation which would remove the present limitations on the Secretary's authority to establish health and safety standards for hospitals, contained in Section 1865 of the Social Security Act, so that:*

- *The Secretary would have the authority to establish health and safety standards for hospitals commensurate with his authority to establish such standards for other providers of services and for independent laboratories.*
- *The Secretary may, in the case of any national accrediting body with standards and certification procedures equal to or higher than those established by the Secretary for a class of providers or independent laboratories, find that such accreditation provides reasonable assurance that the conditions of participation are met.*

In a number of cases, situations arise in which a State agency, authorized to license hospitals in a particular State, has better facilities for certification and makes more frequent inspections than the JCAH or other accrediting bodies. Medicare can profitably utilize this competence.

*Recommendation 4:*

*The Council recommends that legislation be enacted which*

*authorizes the Secretary, in addition to his option to recognize the findings of accrediting bodies, to arrange with State agencies to survey accredited facilities at intervals between accreditation surveys and, when finding deficiencies:*

- *to convey this information to the accrediting agency; and*
- *to report to the Secretary and make recommendations with respect to certification.*

## **Quality Standards for Hospital Laboratories**

The Council is seriously concerned by the inconsistency in application of Medicare standards to different categories of clinical laboratories. The Medicare standards that are applied to *independent laboratories* are considerably more stringent than those imposed on *hospital laboratories* because of the statutory restrictions that no higher standards than those of the JCAH may be applied, and that no other certification than that of the JCAH is required. Yet there are no specific characteristics of hospital laboratories that justify a lesser standard of quality for hospital laboratories than for independent laboratories.

The participation standards for independent laboratories now applied in Medicare were developed after considerable and intensive consultation with laboratory experts to represent what can be considered as the minimal level of standards to assure laboratory performance of an acceptable quality. These standards are essentially the same as those established for application to laboratories in interstate commerce under the Partnership for Health legislation of 1967, but as is noted above are much more stringent than those applied to hospitals through the JCAH accreditation procedure. Moreover, the independent laboratory requirements include specifically defined personnel standards as well as provisions for proficiency testing. The hospital standards do not contain similar requirements.

The proposal embodied in Recommendations 3 and 4 would, if adopted, enable the Secretary to apply the conditions for the coverage of independent laboratories to the laboratories in all participating hospitals, and to monitor the quality of the services rendered in those laboratories.

## **Ambulance Services**

Currently, the only controls on the quality of ambulance services paid for under the Medicare program are exercised by the carriers, who apply some minimal guidelines covering the vehicles and their attendants. For the most part, ambulance service suppliers are required merely to state that they are in compliance with those guidelines. The majority of carriers do not themselves inspect ambulances. State and local licensure requirements regulating am-



bulance services vary a good deal and only a few jurisdictions are considered to have up-to-date and effective regulations. Thus, the mechanism now used gives little assurance that the health and safety needs of those elderly beneficiaries utilizing ambulance services are met. Since ambulance services are frequently provided under emergency conditions to very seriously ill persons, requirements for payment should specify that ambulance attendants have the training and the ambulances are equipped to meet the needs that may be required of them to properly handle the patients.

*Recommendation 5:*

*The Council recommends that the Secretary be given the legislative authority to develop and apply standards for Medicare-covered ambulance services. These standards would cover the various types of ambulance and emergency equipment, qualifications and training of ambulance attendants, methods of communication and dispatch, and policies of agencies rendering ambulance services.*

### **Other Recommendations, Not Involving Legislative Action**

In addition to legislative recommendations, the Council has considered a number of areas in which improvements in the quality of health services provided under Medicare can be improved under existing law. In those cases, noted below, the Council has recommended specific administrative action to the Department of Health, Education, and Welfare.

#### **Hospitals and extended care facilities.**

One serious handicap to the effectiveness of both the State agencies surveying facilities for Medicare and the voluntary accreditation programs is that there is no effective, systematic mechanism for mutual discussion of survey findings and problem areas and for otherwise sharing the information they collect. Some State agencies have reported that the JCAH has requested from them information pertaining to specific institutions (e.g., licensure data), and the States have supplied such data. On the other hand, information collected in the course of accreditation by JCAH is not generally available to State agencies.

*The Council urges* that the Department of Health, Education, and Welfare continue its efforts to encourage the voluntary sharing of information derived from State agency surveys and the inspections of voluntary accreditation organizations. The Council also notes that if Recommendations 3 and 4 (see page 10) were implemented, the Secretary would be authorized to require the exchange of information of this kind.



*The Council also urges* that, in the interest of insuring high-quality care, hospitals and extended care facilities voluntarily share with licensing and accreditation authorities the information they provide to State agencies having title XVIII responsibility. State agencies in turn should share the information they collect with other licensing and accreditation authorities.

One of the little used provisions of Medicare gives States the authority to request that higher standards be applied under Medicare for facilities in their State. This provision was included in the original law to permit the application of standards in a State appropriate to the quality level its facilities have reached. Quality of care of people depends not only on the quality of the care provided but on the access of patients to care. Unduly high standards which reduce access may have the effect of reducing the quality effects of care patients actually receive. In accordance with the idea that geographic variation in standards may be a necessary step toward optimum quality care, States may recommend to the Secretary standards even above JCAH standards. *The Council urges* that the States should give further attention to their option to request permission to establish health and safety standards for Medicare participation that exceed those promulgated by the Secretary for general application.

### **Laboratory Services.**

In recent years there has been considerable discussion about means to effect the more efficient utilization of hospital and independent clinical laboratory services and facilities. Experts support the thesis that consolidation and apportionment of laboratory services in a rational manner would significantly reduce costs and concomitantly improve the efficiency and quality of the services provided. It has also been noted that consolidation of laboratory facilities, both hospital and independent, may soon be an essential requirement of the health system if adequate pathologist, and other doctoral direction of facilities is to be retained, and available paramedical laboratory personnel, including technologists and technicians, utilized effectively.

The Medicare program has, of course, no direct authority to require consolidation of services. However, it is possible that quality controls and limitations on charges and costs which will be considered reasonable by Medicare may help to induce consolidation. Perhaps, too, incentive reimbursement experiments can be devised which may indicate how cost reductions through consolidation and relocation of clinical laboratory services by hospitals and independent laboratories can be fostered.

*The Council has recommended to the Secretary that quality standards and reimbursement levels be established in such a way as to, if at all possible, encourage the consolidation of laboratory services.*

Present Medicare regulations exempt doctoral-directed laboratories from proficiency testing programs that are not directly administered by the State agency. The Council believes this exemption can no longer be justified.

*Consistent with the Council's belief that uniform standards should be applied to all classes and categories of clinical laboratories, it has recommended to the Secretary that the conditions for coverage of services of independent laboratories be revised to require satisfactory participation by all independent laboratories in proficiency testing programs acceptable to the Secretary.*

Evidence suggests that mail order laboratories are providing an increasing amount of clinical laboratory services. The Council believes that this raises a serious question with respect to the assurance of quality. There is a need for standards to assure specimen stability during transmission by mail since some specimens cannot tolerate the time lag of mail transmission. The Council of State Governments' model State laboratory licensure law requires that laboratories show evidence that specimens shipped by mail and accepted for analyses are sufficiently stable for the determination requested.

*The Council has recommended to the Secretary revision of the Medicare regulations to require that mail order laboratories develop and maintain procedures for evaluating the stability of specimens which are not stable to a degree sufficient to assure satisfactory clinical accuracy with respect to original values.*

In many State agencies the surveyor of the hospital laboratory and other hospital departments has no training or experience specific to the operation of clinical laboratories. A surveyor of independent laboratories, however, must be an experienced laboratorian. *The Council urges* that surveys of hospital clinical laboratories be made by the State unit that surveys independent laboratories, and that staff conducting such surveys be specifically qualified in their field of work.

Relatively inexpensive (under \$2,500) automated laboratory equipment designed for multiple analyses is finding a ready market in private physicians' offices and these offices may become an even more significant source of laboratory services. That such equipment be of high quality is a matter of particular concern since the physicians

to whom it is sold are generally not pathologists or otherwise entirely sophisticated with respect to choice of equipment and results likely to be obtained from its use.

*The Council believes that marketing standards may be required to assure that diagnostic laboratory equipment be of sufficient quality to produce accurate results, especially when operated by individuals not specifically oriented toward the practice of pathology. It has, therefore, requested that an expression of the Council's concern be transmitted to the Secretary with a recommendation that a study of this problem be undertaken and evaluation made of the need for appropriate regulatory legislation, recognizing that this problem affects all patients, not only Medicare beneficiaries.*

*Also, the Council encourages and supports efforts and activities directed toward development of national standards relating to reagents, purified chemical substances, and standard reference methods for use in clinical laboratories.*

In relation to quality control measures, such defined national standards can contribute significantly to quality laboratory performance.

While conclusive data indicating the volume and type of laboratory services rendered in non-pathologist physician offices is lacking, the Council believes that such laboratories represent a very significant source of service. Medicare law provides that laboratory services rendered by such physicians for their own patients are reimbursable as physician services and hence not subject to the standards imposed on the other categories of laboratories noted. The study of standards recommended by the Council which might be applied to a service in order for it to be reimbursable may help to solve this problem. In any case,

*the Council has recommended to the Secretary that in cooperation with organized medicine, survey mechanisms be developed to obtain data on the non-pathologist physicians who do their own laboratory work, the scope of such laboratory services, the kinds of personnel doing such work, and the results obtained.*

The Council recognizes that technological advances in automation can materially improve the quality of laboratory services and reduce their costs. Because of the changing nature of clinical laboratories resulting from automation, the Council has recommended to the Secretary that continued attention be given to the need to develop specific requirements for automated laboratories.

## **Utilization of Services**

A fully effective health care system must endeavor to meet the



essential health needs of the people in some cases by providing inducements to those who do not recognize their needs to seek services; while, at the same time, discouraging the excessive use of services which waste scarce resources and increase costs unnecessarily.

Medicare has provided superior insurance coverage to the aged. In its first year, the program paid for 35 percent of the personal health costs of all of the aged. Medicare accounted for almost three-fifths of the expenditures of the aged for hospital care and two-fifths of their expenditures for physicians' services. When expenditures under other public programs are excluded, Medicare's contribution to the aged's hospital and physicians' bills amounted to about 70 percent.

### **Use and Availability of Services Under Medicare**

An examination of the utilization of health services under Medicare reveals two major sets of facts: (1) the overall use of health services by the aged increased significantly under Medicare, and (2) utilization rates vary widely from State to State and area to area, in a pattern which confirms the view that utilization of a particular service depends to a significant degree on its availability.

The enactment of Medicare led to some increase in use of hospital and medical services by the aged. In developing the Medicare program, great stress was placed on the use of extended care facilities and home health agencies as effective and efficient means of delivering needed services outside of costly hospital facilities. In the 2-year period ending with December 1968, over 879,000 admissions to extended care facilities were recorded in the records of the Social Security Administration. Utilization of home health services also rose sharply after Medicare was introduced and by the end of 1968 over 616,000 home health admission plans had been started in the 2,176 agencies presently participating in the program.

At the same time, the variations from State to State in the utilization of services by the aged and in the availability of services for them are very wide. In the case of hospitals, the variations in use, payments, and in hospital admission rates appear to be, in part, associated with the number of available hospital beds per 1,000 population. However, such factors as the availability of physicians in a community, their staff privileges, and the geographical proximity of other health services and local customs on use of extended care facilities, and home health agencies (their use varies widely) must also contribute to these variations in both the hospital and medical insurance programs. The features of the Medicare program which affect use may also have an impact that varies from State to State. While the number of approved independent laboratories also varies



substantially from State to State, this variation is not truly indicative of the availability of laboratory services. These services are available not only from independent laboratories but from hospitals and from laboratories operated by physicians for their own patients. The Department of Health, Education, and Welfare has not received complaints from beneficiaries, physicians, or State agencies that Medicare patients have experienced difficulty in obtaining laboratory services in any area.

## **Consideration of Changes in the Program Affecting Utilization**

The Council has reviewed experience under the Medicare program and considered possible modification in a number of areas. Its findings and recommendations are reported below.

### **Deductibles and Coinsurance**

Among the Medicare provisions associated with utilization control are the deductible and coinsurance requirements. A Medicare beneficiary is responsible for the first \$44 of his hospital bill, and coinsurance on hospital and extended care services after a specified number of days. In addition, under Part B, he must incur a liability for the first \$50 of each year's covered charges and a 20 percent coinsurance on charges over the first \$50. Decisions about deductibles and coinsurance are particularly difficult. On the one hand they are said to be a barrier against *excessive* use of services, and a means of helping to prevent escalation in prices and costs. But if they are sufficiently high to achieve this result for a large number of beneficiaries they may also become, especially for lower-income beneficiaries, a barrier to the use of *needed* services and a financial hardship.

The Council has considered at length the extent to which the Medicare deductible and coinsurance requirements affect beneficiary decisions with respect to the utilization of medical services. Most private health insurance organizations offer health benefit plans that complement the benefits provided under Medicare. As of December 31, 1967, approximately 9,085,000 aged persons—almost half the aged population—had purchased complementary coverage that meets, in many cases, the patient's liability for hospital deductible and coinsurance amounts and a portion of the deductible and coinsurance paid in connection with physicians' services. However, the aged with complementary insurance are generally those who are best off financially. The aged who find the deductible an effective barrier and a financial hardship are those least likely to be able to buy complementary insurance or to have this coverage provided to them through an employer group. They may then need to seek aid from State or local public assistance programs, a step which most wish

to avoid and may not take. Nevertheless, the Council explored the extent to which the deductible and coinsurance amounts may be paid by State Medicaid programs. In addition to funding the cost of needed medical care for all persons who are partially or totally dependent on monies received from the federally aided public assistance programs, the State Medicaid programs are designed to assist the medically indigent. As of January 1, 1969, all but 11 States (as well as the District of Columbia, Guam, Puerto Rico, and the Virgin Islands) had approved programs in operation. If a Medicare beneficiary is categorically needy or medically needy, as defined by the State, and has sought aid under the program so that he has access to benefits under title XIX—and the State has chosen to pay the deductible and coinsurance amounts for medically needy individuals—the hospital and extended care deductible and coinsurance requirements would seem to present no financial barrier to his utilization of needed services although the provision of services under welfare auspices may be less than attractive.

It seems likely, although not demonstrable from the available data, that the deductible and coinsurance provisions of the law applicable to medical services have a more powerful effect on use of services than do the hospital cost-sharing requirements. However, eliminating the medical insurance deductible would require an increase in premiums equal to the reasonable charge of increased services and the increased administrative costs associated with paying many small bills which appears to be the only major additional coverage which would result.

The Council has been advised that the cost of eliminating the \$44 inpatient hospital deductible would be .09 percent of taxable payroll (which would have amounted to \$230 million in 1969). If, in addition, hospital and extended care coinsurance were eliminated, the cost would be .17 percent of payroll. Removal of the \$50 deductible and the coinsurance under the Supplementary Medical Insurance program would require a \$3.95 increase in the monthly premium, with equal matching by the Government.

While the Council is concerned that some elderly patients have difficulty in satisfying deductible and coinsurance requirements, it believes that any additional funds that can be made available to the program would be better used to provide for more effective protection against prolonged illness than to reduce the coinsurance and deductible.

*The Council has no recommendations to make at the present time with respect to the major provisions for deductible and coinsurance under Medicare.*

*The Council does believe that these provisions need further study and should receive the attention of the Advisory Council on Social Security, which will be appointed shortly to consider modifications in social security legislation.*

## **Home Health Agencies**

There is one area in which a change in the present program structure with respect to deductibles and coinsurance, could promote improved utilization of services—namely, services of home health agencies.

Home health service benefits are a relatively small portion of those paid under Medicare—less than 1 percent of the total. These services are now covered under both Parts A and B of the program. Benefits up to 100 visits from a home health agency may be reimbursed under Part A, after the beneficiary has been discharged from a hospital. A 3-day minimum stay in the hospital, involving, of course, the \$44 hospital deductible, is required before eligibility for subsequent home health services can be established. Beneficiaries are also eligible for up to 100 home health visits under Part B, which may be added to the 100 visit eligibility under Part A. Reimbursement for use of home health services under Part B involves the \$50 Part B deductible and requires the beneficiary to pay 20 percent of the costs, under the Part B coinsurance provision.

The current program structure is exceedingly complicated, difficult to explain to beneficiaries, and requires significant administrative costs in proportion to the services received. Proper utilization of these services is, in all probability, inhibited by the current arrangements, with their various deductible and coinsurance provisions.

### *Recommendation 6:*

*The Council recommends that legislation be enacted which would:*

- *place all home health benefits under Part A, with a maximum eligibility of 200 visits per year;*
- *remove the 3-day hospital stay requirement for home health benefits;*
- *provide for coinsurance for the second 100 visits per year.*

The Council feels that this recommendation is needed to improve utilization of home health services. But it believes that administrative steps must simultaneously be taken to assure that the recommended changes—particularly removal of the 3-day hospital stay requirement—do not lead to a reduction in needed medical treatment for those using home health services or to an excessive use of services.

*The Council has recommended to the Secretary that additional*



*efforts be taken to assure that the use of home health services is preceded by a thorough medical evaluation of the health care needs of the patient.*

As a further means of promoting appropriate utilization of home health services, the Council believes that the Department of Health, Education, and Welfare should develop techniques for establishing *utilization review mechanisms* for home health agencies. While the establishment of internal utilization review techniques for home health agencies is much more difficult than for hospitals—because such agencies do not have the same range of professional competence available—this does not preclude the development of other techniques. Organized, community-wide physicians' groups to review home health services, and affiliation with a hospital and its utilization review committee are among the possibilities which can be investigated.

*Recommendation 7:*

*The Council recommends that legislation be enacted which would require utilization review of home health services to become effective one year after the Secretary issues regulations.*

## **Immunizations**

Presently immunizations are not covered services under Medicare except when specifically administered as part of treatment of an injury, emergency, or direct exposure to serious disease. The most frequently required are the prophylactic immunizations such as those against influenza. The Public Health Service annually recommends influenza immunizations for elderly and chronically ill people. If influenza immunization were to be covered under Medicare, the use of the service is likely to increase and could be expected to result in some decrease in morbidity and mortality, particularly in cases where influenza might complicate an ongoing disease process. The other common immunization relevant to the elderly would be tetanus toxoid. Other excluded immunizations are rarely used since the indications for immunizations are, with the exception of influenza and tetanus, infrequent in this age group.

Coverage of such immunizations will require attention to methods for providing the service in the most efficient and economical fashion. Mass immunization through public health processes should be examined and the charges paid by the Medicare program should be reasonable and related to the cost of the most efficient methods. Repeated immunizations prior to an indicated need or those related to precautions related to foreign travel should not be covered.

*Recommendation 8:*

*The Council recommends that the general exclusion of im-*



*munizations from coverage under Medicare be deleted from the statute.*

### **Blood Deductible**

Under present law, hospital insurance (Part A) benefits are provided for blood furnished to inpatients of hospitals and extended care facilities. But the patient must pay for or replace on a pint-for-pint basis the first 3 pints of blood furnished him in a benefit period.

The blood deductible requirement was provided at the request of voluntary blood replacement programs, which encourage donations of blood by waiving charges for blood which the patient replaces. The limitation of the deductible to 3 pints was made in view of the problems aged people have in arranging for the replacement of, or paying for, large quantities of blood. Data for the first 18 months of program operations indicate that during that period about 480,000 Medicare beneficiaries received some 1.5 million pints of whole blood. However, in many instances beneficiaries were unable to meet the provisions of the deductible: in all, only about 180,000 of the blood recipients were able to satisfy the blood deductible through replacement.

In view of the apparent limited participation of aged beneficiaries in voluntary blood replacement programs, the Council believes that providing full coverage of blood for Medicare beneficiaries would have no unfortunate effects on such programs. Moreover, the blood deductible requirement has given rise to a number of administrative difficulties and substantial recordkeeping costs.

#### *Recommendation 9:*

*The Council recommends that the legislative requirement for the blood deductible be eliminated.*

### **Community Mental Health Centers**

Largely as a result of Federal financing, an increasing number of free-standing (not part of a general or psychiatric hospital) community mental health centers have developed in recent years, providing comprehensive psychiatric care for the residents of a particular community, and offering a wide range of inpatient and outpatient services. Experts in the mental health field consider that these centers provide preferred alternatives to inpatient psychiatric hospital care for many patients. But not all of these centers can meet the Medicare Conditions of Participation for Hospitals and, therefore, are not qualified to be reimbursed for inpatient care. If they are to qualify, present law requires that a community mental health center meet the conditions of participation for psychiatric hospitals. However, mental health centers have difficulty satisfying these

requirements, particularly the requirement that the facility be accredited by the Joint Commission. Furthermore, many of the outpatient services are covered only if provided as an incident to the covered services of a physician. The Council believes that the services as now provided in the federally supported centers are of superior quality and deserve coverage under the Medicare program.

*Recommendation 10:*

***The Council recommends the enactment of legislation which would allow the participation of community mental health centers in the Medicare program.***

The Council believes that *inpatient services* in these centers should be covered under Part A of the program, subject to the same conditions and limitations as are applicable to inpatient psychiatric benefits. Payment for *outpatient services* should be made under Part B, on a reimbursable cost basis in much the same manner as outpatient hospital services.

## **Inpatient Psychiatric Hospital Benefits**

The requirements of the Medicare program that govern coverage in psychiatric institutions differ in several respects from the requirements applicable to care in general hospitals. Special conditions and restrictions were adopted at the inception of Medicare as safeguards against payment for the long-term custodial care which was, in many instances, the primary type of care provided to elderly patients in psychiatric hospitals. Included in those restrictions was a limitation on benefits for care in psychiatric hospitals to 190 days in the patient's lifetime.

The Council believes that the 190-day limit is not an appropriate means of safeguarding the program against payment for what is, in effect, custodial care.

Long-term hospital stay does not necessarily mean the patient is receiving only custodial care; the Department of Health, Education, and Welfare has developed guidelines for psychiatric hospitals to define active treatment and to distinguish it from custodial care.

Because of the multiple disabilities that commonly befall the aged, older persons with mental illness may need medical or surgical treatment concurrently with psychiatric treatment; thus, medical care is often provided in a psychiatric hospital.

Some hospitals have received separate certification of participation for psychiatric units and general medical and surgical units, while some psychiatric hospitals are certified as a single unit. Patients receiving medical treatment in a separately certified unit

do not have these days counted against their 190-day limit, while patients receiving the same treatment in a psychiatric hospital which has no separately certified medical unit must count these days against their limit.

The Council also realizes, however, that it is often difficult to distinguish custodial care from long-term institutional psychiatric care. Data reflecting experience with the 190-day limit are not yet available. As such data become available, the Council believes it should be carefully reviewed to determine: (1) whether growth in services resulting from the removal of the limitations would significantly increase cures and promote return to normal family life; and, (2) what the additional program costs would be.

*Recommendation 11:*

*The Council recommends that the 190-day lifetime limit on inpatient psychiatric hospital benefits be removed if a review of past experience shows that such removal would significantly increase health benefits to Medicare beneficiaries, in relation to the costs involved.*

## **Certification of Need for Hospital Services**

Under the hospital insurance program, one of the most obvious examples of inappropriate utilization of services is the unnecessary occupancy of expensive inpatient facilities when health services at that level of care are not required. An admission to a hospital for services which could be given on an outpatient basis with equal effectiveness is another example, as is a Friday admission to a hospital whose laboratory is closed on weekends when the initial services to be obtained are diagnostic laboratory tests. The importance of appropriate and effective utilization of services as a cost control measure is readily apparent.

Under Medicare regulations, payment for inpatient hospital services may be made only if a physician certifies, at prescribed intervals, the patient's continuing need for services. Present regulations require that the first certification be made no later than the fourteenth day of hospitalization, that a recertification be made no later than the twenty-first day, and subsequently at intervals established by the hospital, but in no event may the prescribed interval between recertifications exceed 30 days.

Data on length of stay in hospitals under Medicare show that the number of discharges rises sharply on the fourteenth day and again on the twenty-first day. This appears to offer clear evidence that the certification requirement itself results in discharges—there is no medical reason why discharges should “peak” on these days. These facts also suggest that shortening the certification period, to some-

thing less than 14 and 21 days would result in the discharge of many patients with unnecessarily prolonged hospital stays. Some shortening of the certification interval should result in a reduction of excessive hospital utilization, and a decrease in program costs.

*The Council has recommended to the Secretary that the regulations under Part A be amended to reduce the certification periods below the current 14 and 21 days, such as to 12 and 18 days.*

### **Interrelationship of Title XVIII and Title XIX Programs**

During its deliberations on this report, the Council identified a number of issues with respect to the interrelationships of the title XVIII and title XIX programs. A number of these issues involve administrative questions such as the need to develop uniform standards for provider participation and uniform inspection procedures and are touched upon in Chapter IV of this report. In addition, the Council urges that a continuing study be made of the scope of benefits provided under the two programs with a view to the development of a coordinated and comprehensive system of health services for those individuals who are the beneficiaries of both programs. During the coming year, the Joint Committee of the Health Insurance Benefits Advisory Council and the Medical Assistance Advisory Council will give special attention to issues involving relationships between the title XVIII and XIX programs.





## the rising cost of health services

The Council's major recommendations for legislative action were covered in Chapter II. While it has at this time no legislative recommendations to make directed towards the problem of rising medical costs, the Council did give this matter extensive consideration and made several recommendations to the Department of Health, Education, and Welfare for changes in Medicare regulations and administrative procedures, designed to moderate the current cost escalation. This Chapter discusses the Council's views on the problem of rising health care costs as they affect Medicare, states the recommendations made in this regard, and urges further administrative actions.

### Medical Costs and Medicare

The costs of Medicare necessarily reflect the national trend in the cost of health services. The program was designed to provide what are commonly known as "service benefits." That is, the program does not provide so many fixed dollars per day of hospital care or per medical procedure but pays as necessary to obtain the required service. To pay as necessary for services means that if medical costs rise generally the costs of Medicare will also rise. At the same time, the way in which Medicare is administered will itself have some independent influence on prices of health care.

Medicare's costs are determined by four factors: (1) the number of people covered by the program; (2) the amount of covered services which are used; (3) the cost per unit of service; and (4) the reimbursement factors which are applied. These costs fall on those who pay the social security contributions that support hospital insurance, the aged who have voluntarily enrolled and pay premiums for medical insurance, the general taxpayer who pays to match medical insurance premiums, and on the patients who pay deductibles and coinsurance.

The sharp rise in health care prices in recent years has had a great impact on all who pay for such care. Some of the dimensions of the price increases are:

- the Consumer Price Index (CPI) for all items increased 28

percent in the 12-year period, 1956-1968. At the same time, the index for medical care prices and the index for physicians' fees increased more than twice that amount—58 percent and 57 percent, respectively. The index for hospital daily service charges rose 140 percent during that time, a rate of increase five times that of the all items CPI.

- in the last three years of this period, 1965-1968, both the overall price index and the various components of medical care prices moved up more sharply than they had in the prior decade. The acceleration in hospital daily service charges was particularly rapid, rising 19 percent from 1966 to 1967 and 13 percent in the subsequent year.

Increases in prices for selected periods for the CPI and medical care items are presented in the table below.

Average annual percentage increases, calendar years 1960-1968

	1960-1965	1965-1966	1966-1967	1967-1968
CPI, all items . . . . .	1.3	2.9	2.8	4.2
CPI, all services . . . . .	2.2	3.8	4.4	5.2
Medical care . . . . .	2.5	4.4	7.0	6.1
Hospital daily service charges . .	6.3	9.6	19.1	13.2
Physicians' fees . . . . .	2.8	5.8	7.1	5.6

The Consumer Price Index does not adequately reflect changes in the costs of medical care, especially for hospitals. The hospital daily service charge of the CPI reflects only the amount charged to adult inpatients for routine nursing care, room, board, and minor medical and surgical supplies. It does not include charges for such items as laboratory work, X-rays, operating room, drugs, and other ancillary hospital services.

To measure operating costs, the hospital expense per patient day as reported by the American Hospital Association may be used. This measure is based on a monthly sample survey of non-Federal community hospitals. Comparison of the increases reported since 1966 in the two measures shows that the hospital expense per patient day has increased substantially, but at a lesser rate than that reported in the CPI hospital daily service charge. In the period from 1966 to 1967, when the CPI hospital daily service charge showed its largest increase—19.1 percent, the expense per patient day showed a 15.4 percent increase. Similarly, while the hospital daily service charge increased 13.2 percent from 1967 to 1968, the expense per patient day increased 12.4 percent.

It is very important that insurance programs—both Medicare and private programs—do their part to hold down unnecessary health costs. Medicare did not create problems which resulted in the high

costs now prevalent, although it may have been one important factor in the recent sharper-than-usual rise. Medicare did speed up some of the secular trends which probably account for the more rapid increase in health costs than in other prices.

The basic purpose of Medicare was the removal of financial barriers through improvement of access to medical services, by the aged. Necessarily, then, it increased the demand for services, by itself a force tending to raise prices. Further, Medicare reduced individual consumer concern with cost. A reduction of such concern occurs when, as in the long-term trend, insurance and other third parties pay for more of the care and the consumer pays less out of his own pocket. Medicare also increased the degree to which health costs are paid on a cost basis, giving further thrust to a long-term trend increasing this method of financing. Cost payment may well create a "pass-through" psychology. In other words, hospitals paid on a cost basis may exercise little restraint in taking on more costs if they can be passed on to the reimbursor who is committed to pay these costs. By reducing hospitals' needs to subsidize the poor, Medicare has put hospitals in a better financial position to add to both their staff and facilities and increase the kind and number of services they provide. Thus, the volume of services provided may well have increased even in hospitals that have provided the same number of days of care per year after Medicare as before. The reduction in subsidy to the aged also applied to doctors who reduced charges to low-income aged persons before Medicare but, because the law recognized reimbursement of the physician's customary charge, did not do so afterwards. The reduction in subsidy has also been part of the secular trend, accompanying general increasing affluence and more extensive private insurance coverage.

While all third-party payers should have an important role to play in seeking and applying cost restraints, this is particularly true of Medicare. The scope and coverage of the program are so large that what Medicare does may set a pattern for many other third-party payment programs.

One of the reasons that third parties have an important role to play in controlling cost is that most of the forces of typical marketplace situations which act to control costs for non-health services cannot perform effectively in the health field. Cost reimbursement to hospitals offers no built-in incentives to cost restraint. Charge reimbursement to doctors, as well, does not provide the protections against increasing charges that are present in many other economic areas.

The Council, in common with other parties, is concerned that medical care expenditures and Medicare funds in particular should be



spent most effectively in order to maximize the benefits received for the funds expended. The Council is very much aware that there are limits to the time during which medical cost can continue to rise as rapidly as in recent years without creating serious issues of the priority of allocation of further resources to medical care rather than to housing in the inner city, to education or to the multitude of other demands not now fully satisfied. The ways that Medicare sets the amount it will pay for covered services may have very important effects on the entire health care industry.

## **Controls on the Escalation of Hospital Costs**

In the three-year period, 1965-68, hospital prices rose a total of 47.8 percent compared to a rise in overall consumer prices of 10.3 percent. The Council believes that while it was clearly not the intent of the Congress to establish arbitrary limitations on the cost which is to be considered reasonable and reimbursable, it was intended that what was not reasonable should not be paid. The authority to consider and adopt principles generally applied in other programs, or by prepayment organizations, suggests that the direction the Medicare program should take in establishing reasonable cost limitations may be indicated by private program approaches.

The Council is aware that some third-party payers have adopted tests of reasonableness of provider costs. Examples of these are: (1) grouping institutions within an area by size and type with limitations on the allowable cost increases based on a comparison of one facility's costs with those of the average of the group; (2) limitations on specific costs related to size or occupancy of institutions; and (3) limitation on reasonable cost reimbursement so that cost does not exceed the charges paid by uninsured patients. However, the problem of establishing reasonable costs is not a simple one. Costs for a period are not known definitely until that period is over and a cost report is received and audited. If analysis at that point indicates the cost was unreasonable and an attempt is made to recover a large sum, the hospital may be severely hurt. The most urgent need is to develop ways to induce present and future corrective action where costs appear out of line. The Council is following with interest the Social Security Administration's present consideration of possible tests of the reasonableness of provider Medicare costs and, because of the influence this program has on reimbursing for health care costs, urges that a high priority be given to this activity.

Similarly, the Council is following with care the related "incentive reimbursement" experiments which the Social Security Administration is carrying out under authority provided in the Social Security

Amendments of 1967. In essence, these experiments are designed to test alternative methods, seeking practical and effective reimbursement techniques which would provide hospitals, and other providers under Part A, with incentives to control costs, in substitute for the reimbursement formula now in use. Present law requires that all such experiments be conducted on a voluntary basis, i.e., hospitals and other groups must volunteer to participate in the experiment, they cannot be required to test a new method. While it would be premature to draw any final conclusion, the Council is concerned that participation on a voluntary basis has not thus far brought forth the wide range and diversity of experiments needed to develop and test superior reimbursement techniques.

*The Council intends to follow the course of the incentive reimbursement experimentation program closely, and will make such recommendations as seem appropriate in view of how the program develops.*

## **Incentive Reimbursement Experiments Involving Changes in the Scope of Benefits**

The Council also notes, however, that under the incentive reimbursement provisions, experiments can be entered into only with respect to the method of reimbursement for covered services. There is no provision for experimentation with respect to services which are not covered or for possible modifications with respect to other limitations such as deductibles or coinsurance under Medicare, Medicaid, and the Maternal and Child Health and other Federal health care programs for experiments which may induce more effective health activities.

A possible experiment involving changes in the scope of benefits provided under Medicare, Medicaid, and the Maternal and Child Health services would be one in which a group practice prepayment plan or a neighborhood health center is reimbursed for part or all of the package of health care benefits it provides to beneficiaries so long as the services are at least equal to those covered under Medicare and the cost of this package is less than the amount paid for the care of similar patients outside the group practice setting.

The experiment might provide for some financial advantage to beneficiaries who enroll in the plan—perhaps a reduction in premiums related to the savings to the program derived from their participation in the experimental plan.

### *Recommendation 12:*

*The Council recommends that the legislative provisions relating to the incentive experiments should be broadened so that the*

*Medicare, Medicaid, and Maternal and Child Health programs can participate in experiments which seek to achieve greater economy and efficiency by modifying health benefits and coverage in ways that may promote improvements in the organization and delivery of health services without increasing the costs of these programs.*

## Health Facilities Planning

Although it is essential that the program continue to explore and develop administrative safeguards against possible reimbursement for inappropriate or unreasonable provider costs, the problem of increasing hospital costs goes far beyond Medicare. The lack of effective health facilities planning is generally acknowledged to contribute to such increases. The uncoordinated establishment of new health care facilities and expansion of existing institutions not only lead to the unwarranted expenditure of health dollars, but also cause the waste of scarce health personnel. Several national advisory bodies, including the Secretary's Advisory Committee on Hospital Effectiveness, have urged the development of coordinated planning systems designed to curtail the establishment of unnecessary facilities, and wasteful duplication of available services. Many of the Committee's 14 recommendations were related to improving the planning process. The Council agrees with the Committee that every health service should be included within the purview of a planning agency.

The Blue Cross Association has recommended to its plans that they actively support planning activities through the development of payment methods which take into account the findings of planning agencies in determining whether a facility should be permitted to participate in a plan as well as in determining how much a facility should be reimbursed. At present, at least 20 Blue Cross plans (in 13 States) support planning activities by including such provisions in their contracts with member hospitals. The American Hospital Association has also recommended the coupling of the financing of capital needs with the planning process.

### *Recommendation 13:*

*The Council recommends that appropriate legislation be developed, to be effective when and where appropriate health facilities planning bodies become operational, which would assure that the reimbursement under Medicare would not be inconsistent with the plans and findings of these bodies. One method of insuring the rapid establishment of such planning groups would be the adoption of the recommendation by the Secretary's Advisory Committee on Hospital Effectiveness which*



*would make Federal health grants to States conditional upon the establishment of planning bodies.*

## **The Escalation of Physician's Charges**

The medical insurance program (Part B) is designed to reimburse the beneficiary, or pay on his behalf, reasonable charges incurred for physicians' services and certain other medical services, subject to applicable deductible and coinsurance amounts.

The law does not contemplate that reimbursement of physicians will be based on a fee schedule. Nor was it expected that an individual's income would determine the amount of the payment to be made. It is also clear, however, that Congress did not contemplate reimbursement of physicians without controls of any kind over the costs of the program or without limit to the liabilities it assumed. The law thus provides that only reasonable charges shall be reimbursed. To implement this reasonable charge limitation, the law calls for individual determinations of reasonable charges for specific services by the Medicare carrier which may not exceed the amount the carrier customarily pays under its own program under comparable situations and which take into account: (1) the *customary charges* of the physician; and (2) the prevailing charges in the community. The concept of "customary" charges incorporates the idea that physician's fees to Medicare beneficiaries for a given service should be no higher than his charges to other patients for the same service. As the program has developed, it has become clear that effective administration of this concept requires recognition of the idea that the physician's charges should not be higher than those that have been applicable in his practice for some time—in short, that "customary" fees should be those that have in fact been established by custom. The concept of "prevailing" charges incorporates the idea that a particular physician's fees to a Medicare beneficiary for a specific service should not be out of line with the level of fees generally charged in the locality.

The statute, therefore, is based upon the view that reasonable charges by physicians and other persons under the program include only those which stay within the bounds marked out by the criteria of "customary," "prevailing," and "comparability."

Enforcement of these concepts, under the Medicare program, is in the hands of the insurance carriers, operating within the regulations and under the supervision of the Social Security Administration. They are required to assure that the charges determined to be reasonable for Medicare meet the "customary" and "prevailing" criteria. Comparison of individual charges with a "profile" of charges derived both from their Medicare records and the records



relating to their own policy-holders and subscribers, and with other data on physicians' charges are the primary means of determining that the Medicare reimbursement conforms to the statutory requirements. These policies and procedures were not sufficient to prevent an acceleration in the rate of increase in physicians' fees that out-paced increases in other consumer prices. From calendar year 1960 to 1965, the average annual increase in physicians' fees had been 2.8 percent, compared to a 2.0 percent rise in the all services component of the Consumer Price Index. Beginning with calendar year 1966, the rate of increase of physicians' fees accelerated sharply. The annual increase in fees was 5.8 percent from 1965 to 1966, 7.1 percent from 1966 to 1967, and 5.6 percent from 1967 to 1968. Charges paid by Medicare have similarly climbed.

Experience during the first two-and-one-half years of the Medicare program has demonstrated that many Part B carriers were unable to obtain and apply the needed data on the customary and prevailing charges.

During the past year, the staff of the Social Security Administration, together with representatives of the Part B carriers, special groups of consultants, representatives of organized medicine, and the Health Insurance Benefits Advisory Council reviewed the reasonable-charge criteria, the pertinent regulations, and the manner in which they are applied in the light of emerging Medicare experience, to develop modifications designed to avoid any unnecessary contribution to further price increases. In response to a recommendation made by HIBAC in the spring of 1968, the Social Security Administration appointed a work group, composed of experts in the field of medical economics and related fields, including representatives of Part B intermediaries as well as physicians who have had experience in determining charges for physician-controlled private programs. This group was asked to examine the criteria for the determination of reasonable charges and to review the experience of the carriers in applying them. The group met several times during the year and made a number of recommendations related to the development of possible safeguards against the escalation of physicians' fees. (See Appendix A.)

In December 1968, the Social Security Administration outlined in detail many of the considerations pertinent to the proper establishment and use of the reasonable charge criteria and established more rigorous standards of performance for all carriers in processing Medicare claims.

Among the more important of these instructions were those which:

- had the effect of reducing the frequency with which an increase

in customary charge would be recognized;

- tightened up the standards for prevailing charges bringing those carriers with looser standards into line with those having more rigorous standards.

In addition, in February following the announcement by the Secretary that the medical insurance premium would remain at \$4 (with an equivalent matching payment made by the Federal Government from general revenues) and as part of the effort to keep payment for services within premium income for the next fiscal year, additional instructions were issued which:

- prohibited, at least until July 1, 1970, any further recognition of increases in the prevailing charges now in effect, except upon specific approval by the Social Security Administration of changes required by unusual and extenuating circumstances;
- instructed carriers to review present customary charges to assure that they do not exceed the median charge of the physician and that increases in reasonable charges above the current level not be recognized except in individually identified, highly unusual situations where equity clearly requires such an adjustment or where sufficient time has elapsed to warrant consideration of an increase.

Application of these criteria should provide additional assurance that program payments under Part B are based on reasonable charges. They should also help to insure that carrier claims processes include appropriate constraints against escalation to the extent such constraints are possible under the present statute.

*The Council strongly endorses this effort to secure more rigorous and uniform application by Part B carriers of the reasonable charge determination criteria, and has recommended that the Administration continue to move ahead vigorously in developing and carrying out measures designed to assure full application of the reasonable charge concept under the Medicare program.*

The Council considers this problem of how to determine the reasonable level of the fees to be reimbursed under Part B to be of the highest importance not only to the future of the Medicare program but to the way medical care will be provided in this country in the years ahead. The fact that in this critical area the Council is at this time making no recommendation for legislative action simply reflects its firm conviction that the new procedures now required of the carriers should be given more time and that physicians themselves, as the program continues to mature, will exercise restraint in setting the fees charged their patients. It is the Council's hope

that the reasonable charge concept can be made operative and effective and that legislative action to modify the system of charge reimbursement will not be needed.

## **Medical Costs and the Definition of Medical Services**

It is impossible to administer effective controls on reasonable costs and charges or on the utilization of services, either under Part A or Part B of the Medicare program, without paying strict attention to the problem of carefully defining the services in question. Developing effective incentive reimbursement methods for hospitals may depend, in part, on successfully defining and classifying the services for which reimbursement is made. Similarly, meaningful applications of "customary" and "prevailing" charge criteria by carriers under Part B hinges upon a careful definition of services.

The Council has become concerned about the growth of one particular set of practices under Part B of the program which make the application of reasonable charge standards particularly difficult. In recent years, there has been an increasing tendency to charge for individual services which formerly had been billed on the basis of one overall package charge for the series of services. The total charges for the itemized services seem to often substantially exceed the charge previously made for the entire service package.

For program payment on the basis of customary and prevailing charges to be effective, it is vital that increased attention be given to definitions of services; that is, carrier profiles and payment determination should take account of any variations in the content of the services for which the physician or supplier may bill, and carriers should actively seek to get better definitions of services and endeavor to have them uniformly reported. The objective, of course, should be for Medicare to pay the physician's or supplier's customary charge subject to the prevailing charge in the community for his customary services. The new Social Security Administration instructions to carriers, described above, include measures aimed at this problem.

*The Council strongly supports efforts of the Social Security Administration to obtain the accurate definition and uniform reporting of medical services by clarifying and implementing the pertinent instructions to Part B carriers and by working with physicians and professional groups. The Council also urges that the profession support package charges where they are feasible rather than further fragmenting services and charges.*

## **Reasonable Charges for Laboratory Services**

The Council has identified two areas of concern with respect to



reimbursement for independent laboratory services under Medicare. These are: (1) the wide variation between charges for services rendered by laboratories using manual techniques and those using automated techniques; (2) the practice whereby the physician bills the beneficiary for laboratory services purchased by the physician from an outside laboratory. In this latter case, the physician generally purchases such services from an automated high volume laboratory at a very low price per test to himself, but often does not pass the saving on to the beneficiary in the Medicare program.

Automation of clinical laboratories can significantly reduce the cost as well as improve the quality of laboratory services. Indeed, the actual cost per automated test may be only a small percentage of the cost (and charge) for the same determination done by manual methods. The Council believes that cost savings resultant from automation of laboratories should be passed on to the beneficiary and the taxpayers, something which is not assured under current policies.

The Social Security Administration has issued instructions to the carriers that in those instances in which the physician bills for laboratory services purchased by him from an outside laboratory, the carriers base the reasonable charge allowance on the actual cost of the services to the physician. The Council expects to study the effectiveness of this directive in assuring that the fiscal benefits of automation are realized by the beneficiary. The Council also expects to review two other questions: (1) whether payment under Medicare for services by a laboratory should be made only to the laboratory or whether billing by the physicians should continue to be permitted; and, (2) whether services of an independent laboratory should continue to be paid for on a reasonable charge basis or whether reimbursement on a reasonable cost basis may be better.

## **Group Practice Prepayment Plans**

Reimbursement under Part B, generally, is on the basis of reasonable charges made on a fee-for-service basis. Prepaid group practice plans, however, provide service benefits on a prepaid basis with no fees for individual services. Congress recognized the distinctive character of group practice prepayment plans and provided an alternative method of payment for such plans. They may elect to be reimbursed 80 percent of the reasonable cost of covered services, rather than 80 percent of reasonable charges, both subject to the deductible.

Representatives of the plans have indicated that the present method for reimbursing group practice prepayment plans has required the plans to make major departures from their normal methods of operation. They also pointed out that the present method of re-



imbursement causes them to lose some of their incentives for efficiency of operation and utilization. The representatives of the plans urged that the present method of reimbursement be reviewed and that a capitation payment for the full spectrum of covered services be negotiated in order that the plans can continue to provide services in their usual manner.

*Recommendation 14:*

*The Council recommends that legislation be enacted authorizing the Secretary to negotiate capitation reimbursement payments to group practice prepayment plans.*

## quality of administration

No matter how sound a law may be, the program based upon it will be good only if it is well administered. Administration of Medicare is both an unusually difficult process and a very critical element in achievement of the results intended by the legislative enactment.

Medicare represents a means by which the administrative and financial devices of social insurance can be brought to bear on problems of health and medical care. It requires the performance of the usual social security functions of collection of social security contributions and premium collection, enrollment of the eligibles and maintenance of the rolls of the insured. However, the review of claims is a very different process in Medicare than in other parts of social security. Medicare has to handle some 50 million claims a year, some eight times as many as in all the rest of social security. Where, in the rest of social security, the average claim involves benefits worth tens of thousands of dollars, in Medicare the value of a claim is in tens or hundreds of dollars. In social security, generally, reasonable administrative costs can be achieved while each claim is carefully and individually appraised and all the evidence fully developed. The administrative expenses to support such a process would be indefensible in handling a \$7 charge for a visit to a doctor's office.

On the medical care side, the Medicare program, through all its contracting agencies, must judge the quality of hospitals, extended care facilities, home health agencies, independent laboratories, and physical therapy clinics. Medicare must determine what costs of hospitals and other institutions are reasonable and what charges for medical services are reasonable. It must determine whether utilization review committees of hospitals and extended care facilities are appraising their services adequately. It must determine whether services being billed for are medically reasonable and necessary. In all this, good relations with those who provide health services are essential, so that the health professions are cooperative with the program and receptive to comments and suggestions and help from Medicare.

## Performance of Carriers and Intermediaries

Fiscal intermediaries are responsible for processing claims and determining reasonable costs of providers under Part A. Carriers perform similar functions for Part B, except that in most cases reasonable charges rather than reasonable costs are the relevant factors in Part B.

In the early stages of Medicare it was natural that carriers and intermediaries should concentrate their energies upon developing the machinery to process expeditiously the huge volume of claims under the new program. In fiscal year 1968, for example, intermediaries processed 13.7 million bills, while carriers handled 34 million claims. As the problems related to processing a massive workload have been tackled and mastered, it is now essential that carriers and intermediaries devote an increasing part of their energies to strengthening their ability to deal with the problems of determining reasonable costs and charges.

Chapter III discussed the rapid escalation of medical prices and the role of Medicare in this situation. It outlined the steps which have been and are being taken to improve the criteria for reasonable charge determination. This effort, however, cannot be successful without the whole-hearted cooperation of carriers and intermediaries. Carrier and intermediary performance varies widely in discharging their functions with respect to the determination of reasonable charges and reasonable costs. While many of these organizations have, indeed, developed meaningful statistical systems, charge profiles, and screening procedures, others have lagged behind. The Council believes that this area should receive the highest priority attention by the Social Security Administration and by the carriers and intermediaries.

*The Council has recommended to the Secretary that the Social Security Administration continue to exercise careful supervision over carrier and intermediary performance in the matter of reasonable charge and cost determination and utilization safeguards. In reviewing performance of carriers and intermediaries when contract continuation is being considered, the Social Security Administration should place particular weight upon their performance in the field of cost control.*

The organizational ramifications of the program are enormous. They require that there be coordination of 85 intermediaries which process hospital insurance claims, 50 carriers which process medical insurance claims, and some 54 State agencies which apply the quality standards of the program. In view of the newness and complexities of the program, the Council believes it essential for the Social Secu-

rity Administration to exercise continued oversight of performance by contractors. Maintaining full knowledge of the details of performance of so many agents is a difficult enough task, but changing the performance when the primary weapon against inadequacy is termination of the contract greatly handicaps disciplining the inadequate performer. Termination is not merely a threat to the contracting agency but also to the program, because it is certain that the performance of a contractor which foresees the end of a contract is likely to deteriorate further.

*The Council also has recommended to the Secretary that the Social Security Administration undertake a study of how the concept of incentive reimbursement can be applied to carriers and intermediaries, so that outstanding performance can be rewarded and poor performance penalized, without the sole reliance on the "massive retaliation" of contract termination. The Council supports the use of cooperation and persuasion to seek improvement among carriers and intermediaries, but in those cases where persuasion is unsuccessful and the agency fails to carry out the policy standards which are established, termination of the contract will have to be the avenue which is pursued.*

The statistical program is of unusual importance in Medicare because it provides the information base from which those who administer the program, as well as students of medical care and the public and its representatives, can judge its effectiveness and determine where improvements are needed.

*The Council urges that ways be sought to provide the essential statistical information base as promptly, completely, and accurately as possible, taking into account, of course, the limitations on funds which are appropriate to the task.*

Many of the activities performed for Medicare are quite analogous to some performed for Medicaid. The effectiveness of both processes would be advanced, the cost would be minimized, and the problems to the health services industry would be reduced if Medicaid functions to the extent feasible were delegated to the agencies performing similar services for Medicare. One inspection and one audit may be able to substitute for two now performed if such a change were made. Consistency between program results could be achieved without the expense of coordination.

*The Council urges that, to the extent feasible, Medicaid programs delegate their functions to the organizations which perform analogous functions for Medicare.*





# recommendations of the technical work group on reasonable charge determination methodology

## Final Recommendations of the Work Group

During their final meeting on October 18, 1968, the members of the work group submitted the following final recommendations for transmittal to the Health Insurance Benefits Advisory Council.

1. The group recommended the establishment, possibly under the aegis of the Health Insurance Benefits Advisory Council, of a continuing national advisory body, serviced by an independent staff of technical experts which would (a) maintain continuing surveillance of physicians' fees; (b) develop a body of statistical information related to physicians' charges; and (c) prepare reports on its findings, directed at physicians, carriers, and other individuals and organizations involved in the delivery of health care services, which would provide guidelines both with respect to the appropriate fees for specific services, and for warranted adjustments in fees related to changes in the prices of other services.
2. The establishment of additional criteria for determining the reasonableness of a physician's charge beyond current charging practices and the prevailing fees in the locality. (Although the work group did not offer specific recommendations for such criteria with respect to all physicians' services, they did discuss one example of a possible criterion of reasonableness—they indicated that the cost of providing the services might be relevant in determining the reasonable charge for certain laboratory services.)
3. The establishment of a fixed waiting period, for example, 90 days before a revision to a physician's charge for a specific service can be recognized as his new customary charge. (In that connection, the group also suggested that the physician submit to the carrier a statement of his intention to increase his fees for a particular service.) The group also recommended as a further modification that a physician's customary charge should not be revised more frequently than once in a specified period—for example, once a year.

4. In addition, while the work group formed no final consensus with respect to possible modifications in the methodology for determining prevailing fee limits, the group recommended that the staff investigate alternatives to the present methodology which would result in more uniform practices and increased controls in determining prevailing fees.

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# report of the findings of the workgroup on home health agencies

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# home health agencies

## number, size, distribution, scope of services, utilization, and cost

As of the end of December 1968 there were 2,173 home health agencies certified for Medicare, an increase of about 900 since the end of October 1966. Over 400 subunits of State Health Departments in 8 States were not counted separately in the earlier counts. Thus, about half of the increase in the number of agencies—from 1,275 as of October 31, 1966, to 2,173 as of December 31, 1968—reflects this difference in counting procedures.

The seed money provided by the Congress through the community health services legislation enacted in 1962 and special appropriations in 1966 and 1967 markedly increased the number of agencies able to qualify. Previously less than 250 home health agencies had furnished more than nursing service.

Of these agencies 44% are official agencies, 25% are Visiting Nurse Associations, 1% are combined government and voluntary nursing agencies, 7% are hospital-based. Others are based in rehabilitation facilities, extended care facilities, retirement villages, and 26 in other types of agencies. One large voluntary non-profit agency has amalgamated the interests and concerns of 9 hospitals and their outpatient departments in providing a full range of home health services for patients of all ages who are served by these hospitals. Although there are more than twice as many official agencies as Visiting Nurse Associations, the latter provide the bulk of the service.

The extent to which agencies are certified to provide services in addition to nursing is:

Physical Therapy	69.4%
Occupational Therapy	15.1
Speech Therapy	22.7
Medical Social Service	22.6
Home Health Aide	38.6

There is, however, a wide range in the extent to which agencies are providing the comprehensive range of services envisioned by the Congress.



<u>Number of agencies</u>	<u>Number of Services in addition to nursing provided</u>
1,166	1
444	2
195	3
116	4
78	5

About one-fifth of these agencies also provide nutrition guidance and a few provide inhalation therapy.

Geographically the distribution of agencies is very uneven. All States and territories have at least one home health agency. In Rhode Island, Delaware, Pennsylvania, District of Columbia, Maryland, Virgin Islands, and Guam, home health service agencies cover all geographic areas of the jurisdiction and, hence, are available for 100 percent of the population. Thirteen States have between 90 and 99 percent coverage. At the other extreme, Vermont has the fewest people (31 percent) covered by home health agencies of any continental State.

Another measure of the unevenness of actual availability of home health services is the "starts of care" data. In Rhode Island in the year ending June 30, 1968 there were 34.3 starts of care per 1000 beneficiaries. In Mississippi, the count was 3.2 and in North Carolina, 3.3.

Agencies in 1,381 counties provide coverage county-wide. Partial coverage is available in 106. No coverage is available in 54 percent of the counties.<sup>1</sup> Many of these are mountainous or desert areas in which few people live, or rural areas where the population is too small to support a home health agency. Scattered among 25 States, however, there are 99 counties with populations over 50,000 without a home health agency. The beneficiary population in these counties is 652,000. In these 99 counties there are many hospitals, extended care facilities, mental health centers, and a few rehabilitation centers. Thirty-six of these counties which appear to be especially favorable locations are receiving special attention from the Public Health Service in promoting home health services.

In large metropolitan areas the agencies tend to provide a comprehensive range of services. For example, in Los Angeles three of the nine agencies provide the full range of services specified in the law, four provide three services in addition to nursing and two provide two. Seven of the nine programs provide nutritional guidance.

The uneven coverage due to geographic differences and staffing

<sup>1</sup>See p. 64 for map of the United States showing total, partial, and no coverage.

patterns has resulted in a large number of agencies with only one nurse (23 percent) or two nurses (17 percent). Small agencies are expensive to administer because of uneven usage, and often are staffed by personnel with other responsibilities and who are no longer oriented to or interested in bedside nursing. Usually these are official agencies.

A few States have achieved much in sparsely settled areas. In Colorado, for example, 90 percent of the population has access to home health services through 20 agencies, four of which are multi-county units. In Utah 87 percent of the population has access to home health services through 11 home health agencies. Six of these provide physical therapy, two offer medical social work on a part-time basis, and all but one offer home health aide service. In Idaho 69 percent of the population has access to home health agencies through nine agencies, four of which are multi-county units.

The problem of uneven coverage has, in general, three kinds of solutions:

- a. Combination of two or more agencies to assure better supervision of professional services and better utilization of scarce manpower;
- b. Development of more programs under the auspices best suited to that community after thorough examination of the potential resources of hospitals, group practices, and other facilities;
- c. Encouragement of existing areas of coverage to increase the comprehensiveness of services.

Because Medicare operates not independently but within the framework of a complicated, primarily voluntary medical care system, relationships with other programs are of greatest importance. Other funding sources are involved as are State, regional, and areawide planning agencies.

One of the programs with which home health service agencies must develop close relationships is the medical assistance program, usually administered by welfare departments. Because medical care for many persons over 65 is financed totally or partially by public assistance the relationship between these two programs is crucial to the success of both. At the Federal level a variety of coordination activities are underway. Some States also have such agreements and all are urged to develop them.

Home health services which serve only aged persons are expensive, and in small communities the demand for service may not be sufficient to assure viability. For service to younger families with children, the Children's Bureau makes grants. The extent to which these programs now help finance home health services has not been analyzed but it is substantial.

Through the Comprehensive Health Planning Act funds are available for a variety of purposes relevant to the future of home health services. The State and areawide planning provisions provide excellent resources for rational decision-making concerning where new agencies need to be developed, and old ones strengthened and combined or discontinued. Not all such agencies have representation from home health agencies, but the Council believes all should seek this. From the formula grant programs of this legislation, State agencies can make seed money available to help new programs become firmly established. A disappointing number of States have done so. The project grants could, if the appropriation were increased, also serve this purpose.

The Regional Medical Programs are another relatively new source of funds and leadership. In at least two counties in California not adequately covered with home health services, the Regional Medical Program is helping meet the manpower problems which are a widespread deterrent to the growth of home health agencies.

The Meharry Neighborhood Health Center, opened in 1968 in North Nashville, is jointly sponsored by the Tennessee Mid-South Regional Medical Program and the Office of Economic Opportunity and funded by the latter. Here entire families are offered continuing, personalized comprehensive care. The Office of Economic Opportunity also helps finance home health programs in neighborhood health centers in Boston, New York, Chicago, Mound Bayou, and some rural counties in Kentucky.

The Appalachian Regional Commission has, since July 1968, made funds available for home health agencies serving 16 counties in Kentucky, one in Virginia, and nine in West Virginia. Five of these are hospital-based programs.

Voluntary sources of support are also identifiable: foundations, Blue Cross, other insurance, and United Givers Funds. National foundations have rarely helped support home health agencies but a number of local foundations do so. The same is true of categorical disease agencies. In many localities such agencies help support home health agencies and a few Easter Seal Societies have been certified for Medicare.

As such support develops and programs mature, there should be a sharp reduction in the number of Medicare beneficiaries who do not have access to home health agencies. Such support will also be reflected in increased utilization. In the first two years of Medicare payment was authorized for 560,000 claims under Hospital Insurance and 529,000 claims under Medical Insurance. The total cost was

\$71,530,000 or one percent of the total benefits in the first two years of the program.

## Improving the Quality of Home Health Services

The Conditions of Participation for Home Health Agencies were promulgated by the Secretary to assure quality services for Medicare beneficiaries and to serve as the basis for home health agencies to qualify as providers of services. Several States have set higher standards for home health services than those adopted under Medicare. California and New York accomplished this by enacting State licensure for the agencies, while Connecticut, New Jersey, Massachusetts, and Rhode Island requested of the Secretary and received his approval for standards higher than the conditions of participation. These standards principally related to the use of public health nurses as supervisors and agency administrators. The Council urges that other States adopt higher standards when they have the capacity to do so.

Despite the national shortage of health professionals, most home health agencies have been able to meet the standards related to the qualifications of their personnel. As of August 1968, the percentage of agencies that had major deficiencies in relation to personnel qualifications were:

<u>Type of Service</u>	<u>Percentage of Agencies with Major Deficiencies</u>
Nursing	6.8
Occupational Therapy	4.7
Medical Social Work	4.1
Speech Therapy	3.7
Physical Therapy	3.4
Home Health Aide	1.8

The greatest difficulties which home health services are experiencing in meeting the conditions have to do with organizational and management aspects of their program operation. Five of the first nine conditions of participation relate to these activities. Deficiencies are common in such areas as the effective provision of a second service which is required for certification, provision for full-time professional supervision, the appropriate use of a professional advisory committee, adequate personnel policies, and well-defined admission and discharge policies. More than 100 agencies have not made available the second service required; nor have they informed physicians and beneficiaries that the service is available. The requirement for a professional advisory committee which is basic to good administra-



tion has been misunderstood by many agencies and ignored by others. Some agencies have not provided full-time professional supervision for the days and hours when home health care is available. Through administrative action the relevant conditions of participation are now in process of revision. The requirement for periodic evaluation also is not being implemented effectively by many agencies. There is also need for a provision for regular collection of statistics and review of patient records to show that patient needs are being met quantitatively and qualitatively. This condition, too, is being revised to specify what agencies are expected to do to assure overall program effectiveness as well as better statistics and record review. Resurveys of certified agencies have also shown that some have difficulty meeting another three conditions covering how patients are accepted, how the plan of treatment is established initially and regularly reviewed, and how clinical records are maintained. Three of these conditions are in process of revision.

To assist agencies in carrying out the intent of such revised conditions, the Public Health Service and the Social Security Administration will make available tools which have been developed by State and local agencies.<sup>1 2 3 4 5 6 7</sup>

The survey process has revealed a number of general problems in the application of the standards. Interpretations have varied among the States, and as a result the Social Security Administration is developing expanded guidelines which will insure more uniformity and equity in State action.

Most State Medicare agencies became involved with home health agencies for the first time during their initial certification, in contrast to their having had previous relationships with hospitals and extended care facilities through State licensure or voluntary approval programs. Simultaneously with the certification of existing agencies, State agencies were urged to encourage the development of home health agencies. The same agencies were largely responsible

<sup>1</sup> "A Guide for Program Evaluation," developed by Ohio State Department of Health, published by Public Health Service, in press.

<sup>2</sup> Report of the Special Study and Evaluation Committee of Board of Directors of Home Care Association of Monroe County (N.Y.), Inc., published by Public Health Service, in press.

<sup>3</sup> Home Health Agencies after One Year of Medicare, USDHEW, PHS, 1967 (49 pp.) (Appendix includes model record forms.)

<sup>4</sup> "Guidelines for Good Record Keeping in HHA's," published by Public Health Service, in press.

<sup>5</sup> "Guidelines for Use of Home Health Agency Case Record Review," devised by Ad Hoc Committee of the Associated Hospital Service Home Health Agency Medicare Liaison Committee, New York, N.Y., 8 pp., in press.

<sup>6</sup> National League of Nursing, Report of Regional Meeting, Sept. 25-27, 1968.

<sup>7</sup> U.S.D.H.E.W., PHS, HSMHA, Community Health Service, "Home Health Agencies Professional Groups, Four Observations," in press.

for distributing seed money from the Public Health Service to assist new and struggling agencies to meet Medicare requirements and expand services where feasible.

Concern about the availability of services and the dispatch with which the State agencies were compelled to do the initial surveys contributed to inaccuracies which they are now moving to eliminate.

The Council has found that fiscal intermediaries that employ public health nurses (Massachusetts Hospital Service, Michigan Hospital Service, Hospital Service of New York, and Blue Cross of Greater Philadelphia) are more effectively carrying out their responsibilities to State agencies and providers. During 1969, special attention will be given to upgrading the performance of fiscal intermediaries in States where there are few home health agencies which offer only minimal services to a limited number of beneficiaries.

## **The Effects of the Cost Reimbursement Principles on Home Health Agencies**

There are indications that for various reasons—lack of familiarity on the part of some home health agencies with recordkeeping and accounting practices and comparable unfamiliarity of some intermediaries with the home health agencies and services, a number of agencies have experienced some special difficulties in implementing the cost reimbursement principles. At present, home health agencies have the option of five methods for the determining of the cost of services. Three of these methods were developed by the National League for Nursing, another by the Public Health Service and the fifth consists of apportionment of costs under the RCCAC Method (ratio of charges to charges applied to costs) suggested by the Social Security Administration.

Cost and reimbursement vary considerably depending upon the provider's program and policies and the method used to determine costs. Programs range from those that provide only home visits for care of the sick to the multiple activities found in health departments and other types of agencies that operate clinics and other services. A more equitable reimbursement results in the latter agencies when costs are identified by category or visits since visits for care services of the sick are the most costly.

The variations in cost can be demonstrated by two communities with multiple agencies. In one of these, the average visit cost ranges from \$4.62 in an extended care based agency to \$26.72 in a public hospital based program. Three voluntary agencies offering multiple and similar services had consistent costs of about \$14.50 with variations of only a few cents. In the other community with four agencies,

nursing visit costs range from \$3.68 to \$18.55. The Visiting Nurse Association costs were \$3.68. Two health departments had costs between \$9.00 and \$10.00; and the proprietary agency had costs of \$18.55.

As yet no suitable mechanism has evolved for evaluating the wide differences in volume and cost of service among agencies. Staff of the Public Health Service and Social Security Administration are engaged in a major effort to develop community profiles primarily for the use of fiscal intermediaries.<sup>1</sup> A secondary use will be guidance to areawide and local planning agencies in the establishment of new agencies and the consolidation of small ones.

At the outset of Medicare, only agencies experienced in fee collection and program budgeting had usable information. Many official agencies had never accepted fees and in a number of States, laws prohibited their collecting fees. These laws had to be rescinded. In some States the reimbursement to official agencies goes to a general State or county fund. There may be no relationship between the volume of service for which the State or county makes appropriations and the volume of service provided; also Medicare reimbursement may go into a general fund with no earmarking for home health services. Agencies in this predicament have little interest in developing good costing methods.

Prior to Medicare, only a few fiscal intermediaries had had experience with home health agencies. They assumed their reimbursement responsibilities without prior knowledge and experience and in many instances with staff who had had no exposure to home health care. Similarly, neither the professional nor administrative staff of most providers had had experience with billing procedures. In addition, Part B claims represent special complexities because many elderly patients do not understand the deductible and coinsurance provisions. Nurses spend costly time explaining these provisions to patients and their families. Only four intermediaries have included public health nurses on their staff to help carry out the intermediary responsibilities in relation to home health services. Some providers have not understood that the fiscal intermediary is responsible for claims review and have considered such external review to be interference with the delivery of services. The Council strongly endorses all efforts to provide increased assistance to those agencies which have experienced difficulties with respect to the reimbursement principles.

Payment at predetermined regular intervals and on the basis of anticipated rather than actual costs also has not always been

<sup>1</sup> See Community Profiles, pp. 65-78



understood in its relationship to the adjustments at the end of the cost reporting period.

One of the inherent limitations affecting reimbursement in the insurance approach is the exclusion of custodial care. Other social mechanisms must be developed for some needs of older people. Under Medicare, for example, home health services are available only to homebound ill patients under active medical care. A substantial number of persons over 65, however, do not need skilled nursing, or other professional health services but do need intermittent part-time services of a home health aide for personal care and house-keeping duties. Failure to understand this exclusion resulted in heavy losses to some agencies during 1967-68; and they continue to face the problem of funds for this kind of service. There is real need for the Congress to provide funds for part-time intermittent home health aide services through legislation other than Medicare when this non-professional service is all the individual needs.

Table 1.  
**Number of Certified Home Health Agencies by Type:  
1966-1968**

Type of Agency	October 1966	January 1968	May 1968	August 1968
Total <sup>1</sup>	1,543	1,898	2,029	2,101
*Visiting Nurse Association	494	569	553	538
Combined Government and Voluntary	81	98	106	105
Official Health <sup>1</sup>	829	1,033	1,164	1,243
Hospital Based	79	150	154	161
Rehabilitation Facility	8	12	14	12
Based				
Extended Care	4	14	16	15
Facility Based				
Other	48	22	22	27

SOURCE: SOCIAL SECURITY ADMINISTRATION (Type of agency from application form SSA-1515)

<sup>1</sup> Includes the sub-units of 7 State health departments certified on a Statewide basis.

Prepared by Community Profile Data Center, October 8, 1968

\*The trend in the reduction of the number of certified VNA's is primarily attributable to the merger of agencies.



Table 2  
**Estimated Population in Service Areas of  
 Certified Home Health Agencies, by Region  
 and State October 1967**

Region and State	Total Resident Population <sup>1</sup>	Population in Service Areas <sup>2</sup>	
		Number	Percent
TOTAL .....	200,232,200	162,451,310	81
REGION I			
Connecticut .....	2,899,700	2,859,713	99
Maine .....	989,100	470,499	48
Massachusetts .....	5,424,500	4,969,705	92
New Hampshire .....	663,100	483,607	73
Rhode Island .....	904,300	904,300	100
Vermont .....	401,000	123,552	31
REGION II			
Delaware .....	518,100	518,100	100
New Jersey .....	6,910,700	6,678,099	97
New York .....	18,101,700	18,007,000	99
Pennsylvania .....	11,711,400	11,711,400	100
REGION III			
District of Columbia ....	809,200	809,200	100
Kentucky .....	3,164,500	590,543	19
Maryland .....	3,636,200	3,636,200	100
North Carolina .....	4,944,000	1,566,256	32
Puerto Rico .....	2,697,000	1,782	*
Virginia .....	4,535,300	4,455,700	98
Virgin Islands .....	56,000	56,000	100
West Virginia .....	1,771,600	1,023,899	58
Canal Zone .....	55,600	0	0
REGION IV			
Alabama .....	3,510,000	2,632,700	75
Florida .....	6,045,600	5,664,133	94
Georgia .....	4,396,900	2,248,400	51
Mississippi .....	2,311,300	1,571,600	68
South Carolina .....	2,605,600	2,059,700	79
Tennessee .....	3,866,900	3,594,000	93
REGION V			
Illinois .....	10,775,300	9,645,600	90
Indiana .....	4,958,400	2,756,200	56
Michigan .....	8,392,100	8,090,900	96
Ohio .....	10,537,200	9,238,642	88
Wisconsin .....	4,247,100	3,218,229	76

Table 2 (cont'd)

Region and State	Total Resident Population <sup>1</sup>	Population in Service Areas <sup>2</sup>	
		Number	Percent
REGION VI			
Iowa . . . . .	2,813,600	1,159,063	41
Kansas . . . . .	2,272,100	1,319,000	58
Minnesota . . . . .	3,615,800	2,747,400	76
Missouri . . . . .	4,516,000	2,922,438	65
Nebraska . . . . .	1,473,900	648,000	44
North Dakota . . . . .	644,400	351,700	55
South Dakota . . . . .	706,400	458,100	65
REGION VII			
Arkansas . . . . .	1,936,600	1,902,800	98
Louisiana . . . . .	3,617,300	2,635,700	73
New Mexico . . . . .	1,048,400	455,600	43
Oklahoma . . . . .	2,459,000	2,133,700	87
Texas . . . . .	10,898,500	7,147,800	66
REGION VIII			
Colorado . . . . .	2,020,300	1,746,600	86
Idaho . . . . .	702,300	460,700	66
Montana . . . . .	718,900	444,900	62
Utah . . . . .	1,019,600	856,400	84
Wyoming . . . . .	351,600	188,300	54
REGION IX			
American Samoa . . . . .	28,800	0	0
Alaska . . . . .	263,200	53,000	20
Arizona . . . . .	1,652,000	1,410,058	85
California . . . . .	19,225,700	18,144,737	94
Guam . . . . .	94,000	94,000	100
Hawaii . . . . .	736,400	728,372	99
Nevada . . . . .	461,200	271,160	59
Oregon . . . . .	1,951,100	1,866,823	96
Washington . . . . .	3,072,700	2,719,300	88
Trust Territories . . . . .	93,000	0	0

\*Less than 0.5

<sup>1</sup> Estimates for 50 States as of December 31, 1966, from Market Statistics, Inc., Survey of Buying Power. Estimates for other areas as of July 1, 1967, from U. S. Bureau of the Census, Current Population Reports.

<sup>2</sup> Based on geographic service area data collected from State departments of health by the Regional offices of the U.S. Public Health Service for Home Health Agencies certified for participation in Medicare as of October 30, 1967. Estimates of population in the service areas were made by the Community Profile Data Center, using data from Market Statistics, Inc., supplemented when necessary by estimates based on data from the U.S. Census Bureau.

Prepared by Community Profile Data Center revised October 7, 1968

Table 3  
**Estimated Number of Part A Beneficiaries  
in Service Areas of Certified Home Health  
Agencies, by Region and State: October 1967**

Region and State	Total Beneficiary Population <sup>1</sup>	Beneficiary Population in Service Areas <sup>2</sup>	
		Number	Percent
TOTAL .....	18,710,952	14,865,835	79
REGION I			
Connecticut .....	270,576	257,255	95
Maine .....	115,527	55,281	48
Massachusetts .....	614,947	565,077	92
New Hampshire .....	76,421	55,068	72
Rhode Island .....	99,179	99,179	100
Vermont .....	47,381	14,370	30
REGION II			
Delaware .....	41,514	41,514	100
New Jersey .....	648,099	626,750	97
New York .....	1,896,392	1,885,742	99
Pennsylvania .....	1,221,136	1,221,136	100
REGION III			
District of Columbia ....	66,832	66,832	100
Kentucky .....	321,183	55,687	17
Maryland .....	258,288	258,288	100
North Carolina .....	370,796	114,022	31
Puerto Rico .....	137,864	142	*
Virginia .....	326,647	317,222	97
Virgin Islands .....	2,267	2,267	100
West Virginia .....	190,047	112,945	59
REGION IV			
Alabama .....	296,379	220,338	74
Florida .....	711,896	652,025	92
Georgia .....	330,223	148,669	45
Mississippi .....	208,122	133,756	64
South Carolina .....	172,917	133,338	77
Tennessee .....	352,459	321,507	91
REGION V			
Illinois .....	1,061,043	903,802	85
Indiana .....	474,760	240,888	51
Michigan .....	725,670	691,738	95
Ohio .....	958,899	832,221	87
Wisconsin .....	451,157	339,703	75

Table 3 (Cont'd)

Region and State	Total Beneficiary Population <sup>1</sup>	Beneficiary Population in Service Areas <sup>2</sup>	
		Number	Percent
REGION VI			
Iowa . . . . .	345,531	122,833	35
Kansas . . . . .	256,512	131,423	51
Minnesota . . . . .	393,280	278,490	71
Missouri . . . . .	534,468	302,575	57
Nebraska . . . . .	176,012	61,719	35
North Dakota . . . . .	64,266	31,926	50
South Dakota . . . . .	77,815	50,068	64
REGION VII			
Arkansas . . . . .	216,643	212,027	98
Louisiana . . . . .	276,127	195,346	71
New Mexico . . . . .	62,181	25,692	41
Oklahoma . . . . .	272,687	227,374	83
Texas . . . . .	877,027	465,522	53
REGION VIII			
Colorado . . . . .	175,092	145,979	83
Idaho . . . . .	63,685	40,553	64
Montana . . . . .	67,180	40,527	60
Utah . . . . .	68,613	55,290	81
Wyoming . . . . .	29,345	14,386	49
REGION IX			
Alaska . . . . .	5,589	1,149	21
Arizona . . . . .	120,746	106,915	89
California . . . . .	1,608,277	1,478,068	92
Guam . . . . .	1,124	1,124	100
Hawaii . . . . .	37,307	36,687	98
Nevada . . . . .	24,230	14,702	61
Oregon . . . . .	206,214	196,445	95
Washington . . . . .	301,904	262,263	87
Other Territories . . . . .	295	0	0
American Samoa . . . . .	181	0	0

\*Less than 0.5 percent

<sup>1</sup>The number of persons enrolled for hospital insurance benefits under Medicare, as of July 1, 1966.

<sup>2</sup>Based on service area data obtained in study conducted by U.S. Public Health Service through its regional offices. Since data are not available at less than county levels, estimates for these areas were based on the assumption that the distribution of Part A beneficiaries is the same as that of the total population.

Prepared by Community Profile Data Center, October 14, 1968.



Table 4  
**Percent of Counties Having Total, Partial, or  
 no Coverage by Service Areas of Certified Home  
 Health Agencies, by State—October 1967**

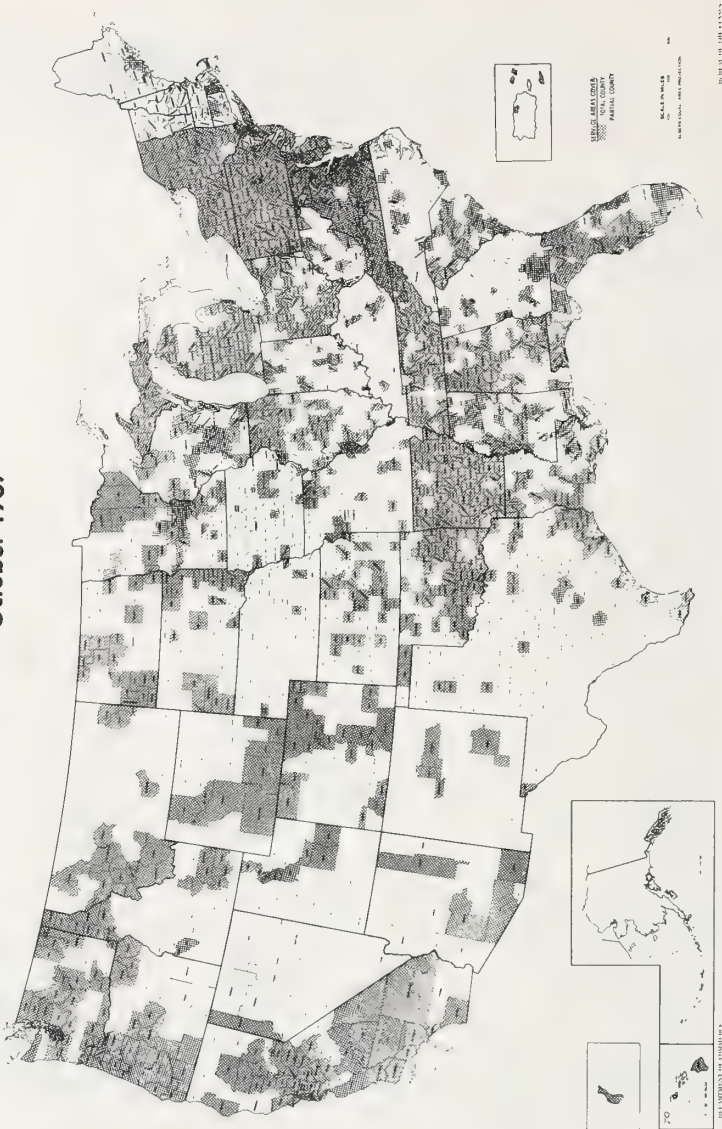
State	Percent of Counties		
	Total Coverage	Partial Coverage	No Coverage
TOTAL .....	43	3	54
Alabama .....	61	—	39
Alaska .....	5	—	95
Arizona .....	29	28	43
Arkansas .....	45	—	55
California .....	71	3	26
Colorado .....	40	—	60
Connecticut .....	25	75	—
Delaware .....	100	—	—
Dist. of Col. ....	100	—	—
Florida .....	75	3	22
Georgia .....	18	—	82
Guam .....	100	—	—
Hawaii .....	40	40	20
Idaho .....	39	—	61
Illinois .....	51	—	49
Indiana .....	23	2	75
Iowa .....	10	9	81
Kansas .....	31	—	69
Kentucky .....	8	3	89
Louisiana .....	45	—	55
Maine .....	19	56	25
Maryland .....	100	—	—
Massachusetts .....	14	79	7
Michigan .....	84	—	16
Minnesota .....	43	—	57
Mississippi .....	51	—	49
Missouri .....	21	2	77
Montana .....	30	—	70
Nebraska .....	4	1	95
Nevada .....	6	41	53

Table 4 (Cont'd)

State	Percent of Counties		
	Total Coverage	Partial Coverage	No Coverage
New Hampshire .....	—	100	—
New Jersey .....	62	38	—
New York .....	97	—	3
New Mexico .....	13	—	87
North Carolina .....	12	3	85
North Dakota .....	36	2	62
Ohio .....	69	6	25
Oklahoma .....	66	—	34
Oregon .....	69	6	25
Pennsylvania .....	100	—	—
Puerto Rico .....	1	—	99
Rhode Island .....	100	—	—
South Carolina .....	61	—	39
South Dakota .....	42	—	58
Tennessee .....	81	—	19
Texas .....	13	—	87
Utah .....	28	—	72
Vermont .....	—	43	57
Virgin Islands .....	100	—	—
Virginia .....	96	—	4
Washington .....	67	—	33
West Virginia .....	38	4	58
Wisconsin .....	49	11	40
Wyoming .....	33	—	67

Prepared by Community Profile Data Center, U. S. Public Health Service,  
March 1969.

Chart 1  
SERVICE AREAS OF HOME HEALTH AGENCIES CERTIFIED FOR MEDICARE  
October 1967



# EXHIBIT A

## HOME HEALTH AGENCIES—COMMUNITY A—METROPOLITAN AREA

### POPULATION

Total 1,506,528  
65 years and over 145,251  
Geographical Area  
3 counties  
Square miles 1718

### HEALTH FACILITIES

Hospitals—27  
Beds—5817 in 24  
Annual admissions 194,555 in 24  
Extended Care & Nursing Homes  
31 certified providers  
25 not certified  
2 County Health Departments  
One has an outstanding program  
1 City Health Department  
Poorly staffed—nursing services  
primarily used for clinic and  
school services.

### OTHER

2 medical schools  
15 State approved Programs in Nursing Education  
Model City Program  
Medical Center which brings patients from wide area  
VNA, hospitals B & C and other type agency experi-  
enced in providing services in the home.

## HOME HEALTH AGENCIES (6)

### I. VISITING NURSE ASSOCIATION

Staff  
40 nurses  
1 LPN  
40 Home Health Aides  
1 Medical Social Worker  
9 clerks

### II. HOSPITAL BASED PROGRAM (A)

Staff  
1 nurse  
1 LPN  
1 Physical Therapist  
1 Medical Social Worker  
1 clerk

	Census	Visits	Allowable Cost	Av. Visit Cost
Health insurance beneficiaries	716	13,278	\$117,146	
All patients	3614	49,185	423,481	\$ 8.50
Health insurance beneficiaries	20	509	7,395	
All patients	22	519	8,064	14.58



EXHIBIT A (Cont'd)

HOME HEALTH AGENCIES (cont.)

III. HOSPITAL BASED PROGRAM (B)

Staff

- 1 nurse
- 1 Occupational Therapist
- 9 Home Health Aides
- 1 Medical Social Worker
- 1 clerk

Health insurance beneficiaries  
All patients

Visits  
1892  
2775

Allowable  
Cost  
27,579  
56,824

Av. Visit  
Cost  
\$14.58

IV. HOSPITAL BASED PROGRAM (C)

Staff

- 2 Medical Social Workers
- 4 clerks

Health insurance beneficiaries  
All patients

2184  
3867

58,348  
126,295

26.72

V. OTHER TYPE AGENCY

Staff

- 8 nurses
- 1 Physical Therapist
- 1 Occupational Therapist
- 61 Home Health Aides
- 3 Medical Social Workers
- 9 clerks
- 8 other

Health insurance beneficiaries  
All patients

16,623  
22,860

292,450  
389,505

14.13

VI. EXTENDED CARE FACILITY BASED

Staff

- 10 nurses
- 9 LPN
- 2 Physical Therapists
- 2 Occupational Therapists
- 58 Home Health Aides
- 4 Medical Social Workers
- 5 clerks

Health insurance beneficiaries  
All patients

3,242  
4,048

14,993  
18,836

4.62

# EXHIBIT A (Cont'd)

## SUMMARY

Health Insurance Beneficiaries	1540	Visits	37,728	Average Number per patient	24.4
All patients	6027	Visits	83,255	Average Number per patient	13.6
Admissions per 1000 enrollees 10.6—as compared with 12.1 for US and 10.3 for the Region in which the community is located.					
However it is above that of the State.					
Range of visits for health beneficiaries 20 to 42					
Cost of services					
Health insurance beneficiaries					517,911
All patients					1,028,005

EXHIBIT B

COMMUNITY B—METROPOLITAN AREA

HEALTH FACILITIES

OTHER PERTINENT CHARACTERISTICS

POPULATION

Total : 730,700  
Part A : 98,719  
Beneficiaries

Hospitals No. 27 (3 for children)

Beds 8,821 (26 hosp.)  
Annual Adm. 164,313 (26 hosp.)  
Ext. Care & Nursing Homes 44

Health Dept.—Clinic and Preventative Services. Good generalized nursing staff.

Mental Health Center

Homemaker Home Health Service Program well developed by 3 agencies Neighborhood Health Centers

1. Concentration of older age persons in the inner city.  
2. Population is of mixed cultural background.  
3. Data available for 5 of the 6 operating home health agencies.  
4. Model City Project

Per 1000 Adm 36.2

HOME HEALTH AGENCIES (7 CERTIFIED—1 NOT ACTIVE)

I. VNA

Use of Services		Average cost nurse visit	
Staff	Census	Costs allowable	
40.93 nurses	HIBA 2,654	\$596,045	\$8.49
9.60 LPN	All pts. 4,126	887,943	
5.90 PT			
2.26 OT			
35.47 HH Aides			
13.76 Clerks			
10.5 Other			
Speech & Med.			
Social by contract.			
HIB—Health Insurance Benefits			
Average Visits Per Patient			
HIB			24.6
All pts			25

# EXHIBIT B (Cont'd)

## II. HOME HEALTH SERVICE

<u>Staff</u>	<u>Census</u>	<u>Use of Services</u>		<u>Visits by Type of Service</u>		
		<u>Visits</u>	<u>Costs allowable</u>	<u>HIP</u>	<u>All Pts.</u>	<u>Cost</u>
7 nurses	HIB	519	145,442	Nurses	518	9.28
82 aides				HH Aide	30,426	4.62 per hr.
2 MSW	All pts.	1,340	196,188	hours	1,340	
11 Clerk				Note: Visits HIB--not charged		
10 Other						
				Social Worker	215	
				PT & OT	108	
				Nursing Sup.		
				Visits	1,449	

## III. COORD. HOME CARE SERVICE

<u>Staff</u>	<u>Census</u>	<u>Use of Services</u>		<u>Visits by Type of Service</u>		
		<u>Visits</u>	<u>Costs allowable</u>	<u>Part A</u>	<u>Part B</u>	<u>Cost</u>
4.1 Nurses	HIP	5,574	67,414	Nurse	1,802	12.10
1.7 PT					2,742	
.8 MSW	All pts.	7,954	96,858			
1.2 Clerk						
		Average No. Visits per Pt.				
			HIP			
			14.8			
			All pts.			
			11.8			



EXHIBIT B (Cont'd)

IV. COORD. HEALTH CARE SERVICE

<u>Staff</u>	<u>Census</u>	<u>Use of Services</u>		
		<u>Visits</u>	<u>Costs allowable</u>	<u>Average Cost Visit</u>
3 nurses	HIP	8,866	154,265	18.08
2 PT				
1 OT	All pts.	13,586	245,664	
1 ST	-			
25 Aides				
1 MSW				
2 Clerks				
4 Other				
Average No. Visits per Pt.				
	HIP		34.1	
	All pts.		36.3	

V. COORD. HOME HEALTH

<u>Staff</u>	<u>Census</u>	<u>Use of Services</u>		
		<u>Visits</u>	<u>Costs allowable</u>	<u>Average Cost Visit</u>
1/4 Nurse	HIP	121	2,079	17.19
2 PT				
1 OT	All Pts.	2,373	40,794	
1 MSW				
3 Clerks				
1 Other				
Average Visits per Pt.				
	HIP		10.0	
	All Pts.		13.1	

**EXHIBIT B (Cont'd)**  
**SUMMARY: (For 5 of 6 agencies—Missing Agency Hospital—based)**

	<u>Total</u>	<u>Visits*</u>	
Health Insurance Beneficiaries:	3,573	80,427	Average 22.5 per patient
Receiving Service			
All patients	6,127	128,503	Average 20.9 per patient

Total Admission per 1000 enrollees for the 5 agencies is 36.2. This is three times that for the Nation and more than twice that for the region in which the community is located.

**Cost:**

Health Insurance	965,245
All Patients	1,467,447

EXHIBIT C

COMMUNITY C—METROPOLITAN AREA

Item E-4  
POPULATION

Total: 953,700  
65 + : 70,957

Square miles: 536

HEALTH FACILITIES

- 1) Hospitals  
Beds 22  
Annual Adm. 5,726  
145,268
- 2) Extended Care and Nursing Homes 30
- 3) City and County Health Departments  
include clinic and preventive services,  
generalized nursing services.
- 4) Mental Health Center
- 5) Four Homemakers and/or Home Health  
Aide Agencies

CHARACTERISTICS

- 1. Well known private and public clinic facilities serve large geographical area.
- 2. Two Medical Schools—use hospitals for teaching.
- 3. School of Public Health.
- 4. Housing development for retired and older citizens.
- 5. Only VNA is experienced in Home Care Services.

HOME HEALTH AGENCIES (4)

I. COUNTY HEALTH DEPARTMENT

	<u>Use of Services</u>			<u>Visits by Type of Service</u>				
	<u>Census</u>	<u>Total Visits</u>	<u>Allowable Cost</u>	<u>Part A</u>	<u>Part B</u>	<u>Total</u>	<u>% All HIB</u>	<u>Cost</u>
HIBA	NA	2860	24,822	1071	787	1858	65.0	\$9.87
All Pts.	NA	NA	NA	109	512	621	21.7	6.78
				161	220	381	13.3	6.02
Average No. Visits Per Pt.—NA				1341	1519	2860	100%	

Staff  
15 Nurses  
3 Home Health Aides  
2 Clerks  
Physical Therapy  
by contract  
Costing method NLN II

EXHIBIT C (Cont'd)

II. CITY HEALTH DEPARTMENT (6 mo.)

Use of Services							
		Census	Total Visits	Allowable Cost			
Staff 37 nurses 1 LPN 4 Home Health Aides 2 Clerks Costing Method PHS=NLN *Health Insurance Benefits	HIB	110	1949	18,912	Nurse HHA	240	1171
	All Pts.	495	3723	32,148		177	361
	Average No. Visits						
	HIB	17.7				417	1532
	All Pts.	7.5					

III. VISITING NURSE ASSOCIATION

Use of Services							
		Census	Visits	Allowable Costs			
Staff 22 nurses 4 LPN 3 Home Health Aides (PT) 3 Clerks Costing Method NLN I	HIB	771	30,527	117,181	Nurse H.H.A.	Part A	Part B
	All Pts.	1406	59,608	224,368		8857	21,310
	Average No. Visits Per Pt.					298	62
	HIB	39.5				9155	21,372
	All Pts.	42					30,527
						Part A	Part B
						8857	21,310
						298	62
						9155	21,372
						30,167	360
						98.9	1.1
						\$ 3.68	17.13

IV. HOME HEALTH SERVICES (11 mos.)

Use of Services							
		Census	Visits	Allowable Costs			
(Proprietary) Staff 1 Nurse 3 Home Health Aides	HIB	120	1509	20,269	Nurse H.H.A.	Part A	Part B
	All Pts.	120	1509	20,269		270	114
	Average No. Visits Per Pt.					729	396
						999	510
						384	1125
						25.4	74.6
						18.55	11.68



EXHIBIT C (Cont'd)

1 Clerk

Costing Method NLN I

HIB

12.5

All Pts.

12.5

SUMMARY : (Incomplete data)

	No. Patients	Visits	
		Total	36,845
Health Insurance Beneficiaries	1001 (3 agencies)	(Part A 11,912)	Av. 36.8 Visits per pt.
receiving services		(Part B 24,933)	
All patients	2021 (3 agencies)	64,840	Av. 32 Visits per pt.
		(3 agencies)	

Admissions per 1000 enrollees for the 3 agencies is 14.1 as compared with 12.1 for the US, and is above the 6.5 reported for the Region in which the community is located.

Range of visits were

Cost of Service

HIB \$181,184

All pts. 267,785 (3 agencies)

12.5 to 42

OBSERVATIONS:

Is the County Health Department providing home care services only for HIB patient? As the principal provider, it appears that 90% of Part B visits are by the VNA and 77% of Part A. One agency offers physical therapy services to almost 22% of its patients, but this represents only 2% of the total patient group. The average number of visits by the VNA appears high, and includes primarily nursing whereas the visits by one of the other agencies is almost 75% by home health aides. The four agencies provide home health aide services but use of these services ranges from 1.1% to almost 75% of visits.

# EXHIBIT D COMMUNITY D

POPULATION		HEALTH FACILITIES	PERTINENT CHARACTERISTICS
Total — 84,600		1) Hospitals No. 4	1. Considered as metropolitan area, city is fairly centrally located. Surrounding area rural and sparsely populated.
Part A: 6,058		Beds 785	
HIB		Adm 20,178	
Land area	2,661 Square Miles	2) Extended Care Facility 5	2. County is listed as having total county coverage by the two home health agencies
		3) County Health Department providing preventive services	3. New and inexperienced agencies
		4) County Welfare provides Homemaker Services	

## HOME HEALTH AGENCIES (2)

### I. HOSPITAL BASED PROGRAM

Use of Services			
		Use of Services	
		Census	Visits
Staff 1 nurse (certified as providing physical therapy service) Also certified as an Extended Care Facility and Hospital.	HIB*	17	402
	All pts	20	486
	Average No. Visits per Pt.		
	HIP	— 23.6	
	All pts	— 24.3	
		Allowable Costs	Average Cost per Nursing Visit
		8,012	19.94
		10,442	

II. HOSPITAL BASED PROGRAM

EXHIBIT D (Cont'd)

	Use of Services			
	Census	Visits	Allowable Costs	Average Cost per Nurse Visit
Staff				
3 nurses	37	572	\$10,957	\$19.16
5 other	39	658	12,906	
(certified as providing physical therapy and home health aide service)	Average No. visits per pt — 15.4			
Method of Casting ACCAC	All pts — 17			

\*Health Insurance Benefits

SUMMARY:

Health Insurance Beneficiary:	No.	Visits	Average no per pt	18
	54	974		
All patients	59	1144	Average no per pt	19.4
Admissions per 1000 enrollees is 8.9 which is below the 14.0 for the region in which these agencies are located				
Range of visits 15.4 to 23 (HIP)				
Cost				
	HIP	— 18,969		
	All Pts	— 23,348		

EXHIBIT E

HOME HEALTH AGENCY—COMMUNITY E—RURAL AREA

POPULATION

HEALTH FACILITIES

Total 26,641  
Principal town 7,551  
65 years and over 2,887  
Geographical Area 1,127 square miles

Hospitals 1  
Beds 120  
Annual admissions 4919  
Extended Care and Nursing Homes  
Certified 1  
Not certified 1  
County Nursing Service  
Home for the Aged

HOME HEALTH AGENCIES (2)

I. HOSPITAL BASED PROGRAM

Staff  
80% of one nurse  
25% of a physical therapist  
10% of a speech therapist  
15 Home Health Aides  
1 Home Health Aide  
Supervisor  
1 Clerk  
2 Public Health Nurses by  
contract with county  
Certified as hospital and  
Extended Care Facility

Census	Visits	Allowable cost	Cost per visit
116	5346	\$37,068	
129	6419	47,585	\$6.93

Health insurance beneficiaries  
All patients



# EXHIBIT E (Cont'd)

## II. COUNTY NURSING SERVICE

Staff	Health insurance beneficiaries	51	398	3,920
1¼ nurses		369	1733	13,420
½ clerk				9.85

## SUMMARY:

Health insurance beneficiaries	167	Visits	5744	Av. 34.4 per pt.
All patients	498	Visits	8152	Av. 16 per pt.
Range of visits for beneficiaries	7.8 — 46			
Cost of services				
Health insurance beneficiaries			\$40,988	
All patients			61,005	

Admission per 1000 enrollees in the County is 57.8 which is more than 5 times that of the Region in which it is located.

# consultants

The following served as consultants to the Council during the course of its deliberations and the preparation of its Annual Report:

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Rochester, Minnesota

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Boston, Massachusetts







THE ADVISORY COUNCIL ON PUBLIC WELFARE

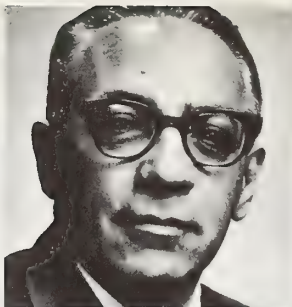
“Having the Power,  
We have the Duty”

REPORT TO THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE  
U.S. DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE • WELFARE ADMINISTRATION

WASHINGTON, D.C.

JUNE 29, 1966

FEDELE F. FAURI  
*Chairman*



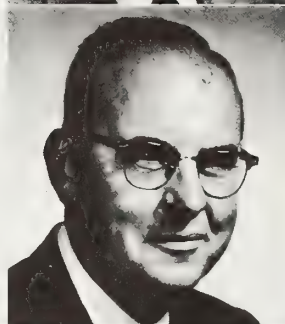
LEONARD LESSER



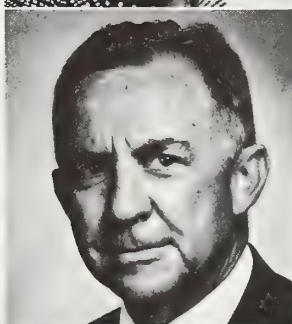
MRS. DELESLIE ALLEN



C. VIRGIL MARTIN



WALTER E. BROWN, M.D.



FRANK W. NEWGENT



JAMES W. FOGARTY



EUGENE H. NICKERSON



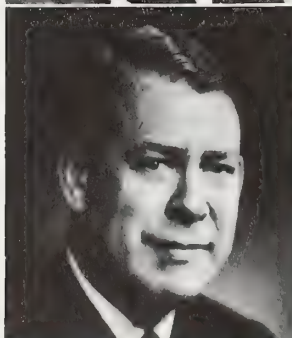
MRS. CERNORIA D. JOHNSON



SANFORD SOLENDER



GUY R. JUSTIS



ELIZABETH WICKENDEN



## LETTER OF TRANSMITTAL

June 29, 1966

THE HONORABLE JOHN W. GARDNER  
Secretary of Health, Education, and Welfare

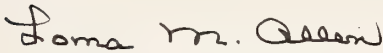
Dear Mr. Secretary:

In accordance with section 1114 of the Social Security Act, as amended in 1962, there is transmitted herewith the report of the Advisory Council on Public Welfare, appointed in 1964. The report, as directed by law, includes the Council's findings and recommendations with respect to the administration of the public assistance and child welfare services programs. On January 28, 1963, these programs were brought within the Department's Welfare Administration.

Respectfully submitted,



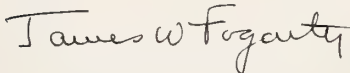
FEDELE F. FAURI, CHAIRMAN



MRS. DELESLE ALLEN



WALTER E. BROWN, M.D.



JAMES W. FOGARTY



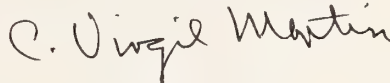
MRS. CERNORIA D. JOHNSON



GUY R. JUSTIS



LEONARD LESSER



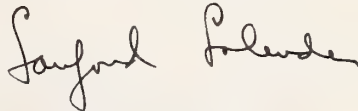
C. VIRGIL MARTIN



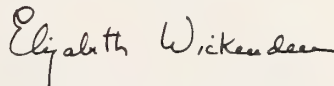
FRANK W. NEWGENT



EUGENE H. NICKERSON



SANFORD SOLENDER



ELIZABETH WICKENDEN





## FOREWORD

The Advisory Council on Public Welfare was appointed in July 1964 by the Secretary of Health, Education, and Welfare, acting under a Congressional directive included in the Public Welfare Amendments of 1962. This directive called upon the Council:

*to review the administration of the public assistance and child welfare services programs for which the Social Security Act authorizes Federal funds; and to make recommendations for improvements in these programs, taking account of their administration, relationships with the Old Age, Survivors, and Disability Insurance program, the fiscal capacities of the States and the Federal Government, and other matters relating to Federal-State shares in these assistance and welfare services programs.*<sup>1</sup>

The Committee on Ways and Means of the House of Representatives pointed out that "independent review" by such a group would be particularly useful not only because the Nation's public welfare programs are "large and complex," but also because they "must respond to problems which shift with the changing nature of our social and economic conditions."<sup>2</sup>

## SOCIAL PROGRESS THROUGH LEGISLATION

By enacting the 1962 Amendments, Congress made it possible for the federally aided welfare programs to respond more effectively to some of the social and economic changes with which public welfare must deal. By allowing for an interval before the appointment of the Advisory Council, Congress wisely left time for the States to act on the provisions in this new legislation. As indicated in this Report, progress has been substantial, but not without problems. This was to be expected.

What could not be clearly foreseen, even as recently as 1962, was the continuing upswing in national concern and in Federal action on social and economic problems of individuals and families since the Council came

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<sup>1</sup> Title XI, sec. 1114 of the Social Security Act as amended in 1962.

<sup>2</sup> Public Welfare Amendments of 1962: House of Representatives Report No. 1414 (to accompany H.R. 10606). For citation, see page 25.

into being. The forward movement led to the Social Security Amendments of 1965, coincidentally marking the 30th anniversary of the original Social Security Act. This has been a history making period in American social legislation.

These developments have added greatly to the scope and the challenge of the Advisory Council's assignment. Through an unprecedented combination of old and new measures, public welfare is not only strengthening its traditional services, but assuming new responsibilities including civil rights and broadened war-on-poverty activities. While taking account of these inter-relationships, the Advisory Council has been careful to keep a sharp focus on the area of concern assigned to it by Congress—*the present operation and continuing improvement of public welfare in the United States.*

## **SOURCES OF INFORMATION**

To bring together a comprehensive body of current information and experience, the Advisory Council has tapped three major sources:

First, the Advisory Council members have drawn upon their own backgrounds to contribute factual content as well as points of view.

Second, the resources within the Federal Government have been fully utilized. As the agency most directly involved, the Welfare Administration has been a generous and unfailing source for needed information. The Advisory Council has also had the benefit of information supplied by the Social Security Administration and other agencies with related programs.

Third, a series of six regional open hearings of the Advisory Council proved to be an invaluable source of first-hand information and experience.<sup>3</sup> The Council's purpose in seeking this coast-to-coast sampling of opinion about public welfare was to build the broadest possible base for its own review and conclusions. The regional hearings amply fulfilled this purpose. This composite view of public welfare in action—always candid and in sum total constructive—has made an outstanding contribution to the Advisory Council's work.

## **REACHING A CONSENSUS**

The core of the Advisory Council's review and recommendations was the product of its own work sessions. With what may well be a minimum of absences for such groups, this scheduled series of 2-day meetings at 3-month intervals brought the Council's full membership together in Wash-

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<sup>3</sup> See appendix: Regional Hearings of the Advisory Council on Public Welfare.

ington. Special assignments were also undertaken by small committees and by individual Council members.

Both the diversity in background among Council members and their common interest in public welfare have been reflected throughout their deliberations. Many questions were raised—and on occasion long debated.

## **PAST, PRESENT, AND FUTURE**

As part of its task, the Advisory Council has reviewed the reports of its immediate predecessors<sup>4</sup> and it has been impressed by the extent to which their views are embodied in recent steps to strengthen the public welfare program.

Since it serves as a connecting link between these earlier groups and similar groups to come, the present Advisory Council feels a strong sense of continuity with both past and future. At the same time, however, it recognizes that it enjoys two unique distinctions:

First, it is the first Federal advisory body in this field to be appointed since the establishment of the Welfare Administration—and therefore the first to have an opportunity of considering the total public welfare program as a comprehensive entity within which public assistance, including medical assistance; family welfare services; juvenile delinquency; and child health and welfare services are all essential components.

Second, it has been privileged to have the personal interest of two Secretaries of Health, Education, and Welfare—the Honorable Anthony J. Celebrezze, who appointed the Advisory Council on Public Welfare, and the Honorable John W. Gardner, who succeeded Judge Celebrezze in the summer of 1965, and to whom the Council now submits its Report.

## **ACKNOWLEDGMENTS**

In behalf of the Advisory Council members, the chairman takes pleasure in expressing warm appreciation to both the past and the present Secretaries. All who have shared in the Advisory Council's work hope that its recommendations and conclusions may be useful in the improvement of public welfare.

In addition, the Council has had the advantage of the sustained interest of the Under Secretary of Health, Education, and Welfare, Wilbur J. Cohen.

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<sup>4</sup> Advisory Council on Public Assistance, 1960; Advisory Council on Child Welfare, 1960; Ad Hoc Committee on Public Welfare, 1961.



The chairman extends his own thanks to the many others who have given generous cooperation to our task, among them:

the Commissioner of Welfare, who has served as the Advisory Council's Executive Officer, and without whose invaluable aid the Council's work would have been sharply limited;

the members of the Welfare Administration staff: both those who served as "secretariat" to the Council and the many others, in Washington and in the Regional Offices, who have given of their time, effort, and professional knowledge;

and, with special appreciation, all of those who took part in the regional hearings and shared with the Advisory Council their views of public welfare in operation; among them, the representatives of professional societies; spokesmen for voluntary agencies; State and local public welfare administrators and other State and local officials; community leaders, including representatives of the churches, business, organized labor, and the press; and the recipients of public assistance and public welfare services who extended *our* experience by sharing *their* experience with us.

June 29, 1966

FEDELE F. FAURI  
*Chairman*

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# Public Welfare: A Comprehensive Program of Basic Social Guarantees

## A Statement of the Council's Central Recommendations

### THE PRESENT SITUATION

Public welfare is the only governmental program operating in the United States today which has as its assigned task the provision of an ultimate guarantee against poverty and social deprivation. Its role in society is to assure to individuals, families, and communities the recognized basic essentials of living within a framework of related governmental and voluntary measures.

Its ability to carry out this function is necessarily governed by its legislative mandate and the financial resources it is given by the public. At the present time public welfare is desperately handicapped in both respects. But it is nevertheless to public welfare that people must look for aid when income from other sources falls short or the traditional protections of family and other forms of voluntary association do not adequately meet their social needs. All societies in order to survive must make provision for these needs within the limits of their resources and social pattern. The United States is, however, distinguished from other countries in the degree to which unprecedented resources combine with the unprecedented interdependence to make such basic protections both possible and essential.

The very concept of a guarantee requires that it be available to all it is intended to protect, be adequate to their needs, consistent with the standards of the society in which they live, and available on a dignified basis as a matter of legal right.

Today, despite legislative improvements and courageous administrative leadership, our public welfare provisions fall short on all these counts.

They are expected to make up to individuals for all deficiencies of economic and social functioning in our society but are given limited resources in law and financing with which to do so. Approximately 8 million persons are today dependent on a precariously low level of assistance. But an additional 26 million are living below the income level which the Government defines as constituting poverty within American standards. Social services for the protection of children, aid to families, and facilitating help for the aged, the disabled, the isolated, the uprooted or other individuals overburdened by problems beyond their powers of personal solution are so spotty as to constitute a token of help for some rather than a true guarantee for all. Public welfare is not the only or always the best answer to all these problems but in the realities of today's situation it is caught between overwhelming needs and inadequate resources with which to meet them.

Congress recognized the inadequacy of our present public welfare provisions when it authorized in 1962 the creation of an Advisory Council on Public Welfare to review the present Federal provisions for public assistance and child welfare services and to submit recommendations for their improvement.

The Advisory Council on Public Welfare has diligently pursued this assignment since its appointment in 1964. It has met a total of 18 days in Washington. It has studied all available documents, reports, and statistics. It has conferred with responsible officials from all the operating bureaus charged with the administration of these programs at the Federal level. It has conducted six open hearings in various sections of the coun-



try at which the opinions and recommendations of almost 350 interested persons were solicited, heard, recorded, and analyzed. Witnesses including spokesmen for State governments, members of the legislatures, State and local public welfare administrators, experts from voluntary social welfare agencies and universities, representatives of business and labor organizations, and persons representing the public welfare beneficiary groups.

On all counts and from all sources the weight of the evidence is incontestable: a major updating of our public welfare system is essential if it is to fulfill its assigned task of assuring a basic floor of economic and social security for all Americans. The remedies must match these indictments:

- Public assistance payments are so low and so uneven that the Government is, by its own standards and definitions, a major source of the poverty on which it has declared unconditional war.
- Large numbers of those in desperate need, including many children, are excluded even from this level of aid by arbitrary eligibility requirements unrelated to need such as those based on age, family situation, degree of disability, alleged employability, low earnings, unrealistic requirements for family contribution, durational residence requirements, and absence of provisions for emergency assistance.
- The methods for determining and re-determining eligibility for assistance and the amount to which the applicant is entitled are, in most States, confusing, onerous, and demeaning for the applicant; complex and time consuming for the worker; and incompatible with the concept of assistance as a legal right.
- The lack of adequate social services for families, children, young people, and individuals isolated by age or disability is itself a major factor

in the perpetuation of such social evils as crime and juvenile delinquency, mental illness, illegitimacy, multigenerational dependency, slum environments, and the widely deplored climate of unrest, alienation, and discouragement among many groups in the population.

- Neither the war on poverty nor achievement of the long range goals implicit in a Great Society concept can succeed so long as the basic guarantees of a practical minimum level of income and social protection are not assured for all.

## THE COUNCIL'S RECOMMENDATIONS

Only comprehensive nationwide protections can meet this challenge. The Council, therefore, recommends the addition of a title to the Social Security Act to provide, in cooperation with the States, a new nationwide program of basic social guarantees on the following basis:

### 1. *General Proposal*

The new program would require that adequate financial aid and social services be available to all who need them as a matter of right. To make this possible a new pattern of Federal-State cooperation is proposed. The Federal Government would set nationwide standards, adjusted by objective criteria to varying costs and conditions among the States, and assume the total cost of their implementation above a stipulated State share. The States would thus be freed to concentrate their efforts on meeting human needs, relieved of the present multiple Federal program requirements and the constant pressure to find new sources of State financing. The required components for participation in this new program are described below.

### 2. *Assistance Standards*

A floor of required individual or family income would be established for each State in terms

of the cost of a modest but adequate family budget for families of various sizes and circumstances as established by objective methods of budget costing. This would constitute the minimum level of assistance which must prevail in that State.

### **3. Eligibility for Aid**

All persons with available income falling below this established budget level would be entitled to receive aid to the extent of that deficiency. Need would be the sole measure of entitlement and irrelevant exclusions such as those based on age, family composition or situation, degree of disability, presumption of income not actually available to the applicant, low earning capacity, filial responsibility, or alleged employability would not conform with requirements of this program. Provision for immediate emergency aid when needed would also be required.

### **4. Eligibility Determination**

Applicants for aid would establish their initial eligibility by personal statements or simple inquiry relating to their financial situation and family composition, subject only to subsequent sample review conducted in such manner as to protect their dignity, privacy, and constitutional rights.

### **5. Child and Youth Welfare Services**

The Federal Government would also specify the required components for child and youth welfare services to be included within the comprehensive new program. These would include protective and social services for children in a vulnerable situation, foster care placement in homes and institutions at reasonable rates of reimbursement, adoptive placement services, services to unmarried mothers, homemaker services, day care, other types of group service, provisions for specialized institutional care, probation and school social service (where not otherwise available), special programs for young people, and services

related to the licensing of nongovernmental programs. Special provisions would be required for young people coming to the attention of authorities for unlawful or antisocial acts or believed to be vulnerable to such activity.

It is the goal of the Council that adequate child welfare services should be available to all children in need of them as a matter of enforceable legal right. Recognizing, however, the practical difficulty of assuring the universal availability of a full range of services immediately, it is recommended that the Federal Government distinguish between services which must be available to all eligible children and those which may be included in the comprehensive program on a progressively expanding basis within the same financing pattern.

### **6. Other Social Services**

The comprehensive State plan would also include other specified social services for families, older persons, individuals with special problems relating to health or other handicaps, and for a better ordering of community social resources. Again a distinction would be made between those to which individuals would be entitled by legal right on the basis of universal availability and those approved for inclusion within the State plan on a basis of progressive coverage. Examples of such social services would include the following: neighborhood advice and referral centers; services to assist the aged and homebound in meeting their medical, housing, recreational, social and activity needs; supportive services for mothers with special problems; social services related to health needs including family planning; services to advance employability—including aid in moving to new locations promising employment opportunity; and community planning services.

### **7. Legal Rights**

Entitlement to all benefits and services within



this program would be protected by the following legally enforceable rights: (1) the right to apply and receive prompt, objective, and impartial determination of eligibility for and provision of benefit or service, (2) the right to be given a fair hearing against unacceptable judgments, by an impartial appeals agent, (3) the right to representation in appeals, by an attorney whose services and costs would be compensated by the agency if not otherwise provided for, (4) the right to court review, and (5) the obligation on the agency to publicize the conditions of entitlement to all benefits and services. The right to services would be conditioned on the need for service rather than income level.

#### **8. Personnel**

Because the fulfillment of all these objectives depends upon a dramatic increase in the present limited national pool of professional social workers, social work aides, and related auxiliary personnel, special legislation for Federal financial aid to encourage and expand the training of such workers is essential to this plan.

#### **9. States' Share**

The State's share in the financing of this comprehensive program would be established each year on a total dollar basis determined by objective criteria related to its fiscal capacity and effort.

#### **10. Federal Share**

For States operating under this program of basic social guarantees the Federal Government would assume the full financial responsibility for the difference in cost between the State's share and the total cost of the new program. This constitutes in effect a revolutionary reversal of roles of the Federal and State governments in the financing pattern. Under the present system it is assumed that the primary responsibility for determining the scope, level of benefits, and financing

of the various components of a public welfare program rests with the States. Under the new proposal national standards of performance would be recognized as calling for an equivalent national assumption of financial responsibility by the Federal Government. Within this pattern, since no differentials would be applied among types of expenditures, Federal auditing would be limited to actual expenditures and program performance in terms of required Federal standards. States would, of course, be required either to finance their share by State funds or to make comparable financial arrangements with their political subdivisions to assure equitable and universal standards throughout the State.

#### **11. Interim Option**

States not yet prepared to participate in the new nationwide program could continue on a transitional but limited interim basis to operate under the existing titles. States' rights and State options would thus be protected during the period of accommodation but the fiscal, policy, and administrative advantages to the States of a plan which fixes and limits their total financial obligation in relationship to their fiscal capacity would be a powerful incentive to cooperate in this new plan of partnership. The simplification of accounting, reporting, and audit procedure alone would eliminate many of the complexities and confusions that presently plague Federal-State relationships.

### **ANSWERS TO SOME BASIC QUESTIONS**

#### **Can We Afford This Proposal?**

America is not only a country of actual, advancing, and virtually unlimited potential material prosperity, it is also a country committed to high social aspirations. The elimination of poverty and the achievement for all its people of

social justice, basic security, and opportunities for self-realization are the announced goals of the Great Society. We have the resources in productivity and institutional adaptability to realize these aspirations for our own people without sacrificing our obligations to the peace and development of the rest of the world. It is not only our present national income and growth rate that justify this assumption; it is also our faith in America's capacity to make continuing advances in the most effective development and use of its vast resources.

Public welfare, as the ultimate source of protection against poverty and social deprivation, has its unique role to play in this great national undertaking. But it is one of many measures through which we are seeking to reduce the extent of such economic and social hardships. At present it is expected to do too much in some situations and too little in others. This is so because we have not yet sufficiently expanded those other measures that can prevent poverty before it occurs and thus free public welfare for its essential social service task. It should not be expected to serve either as a universal panacea or a universal scapegoat for all the ills of society. Measures to prevent poverty should reduce its burden and thereby bring the cost of doing its own job within manageable proportions.

Much of the cost of an adequate program of basic guarantees against poverty and social deprivation can and should be reduced by measures to assure adequately paid jobs to all who can and should work, an adequate system of replacement income through the proven mechanism of social insurance for those no longer able to work, an adequate network of educational and health measures, and adequate legal protections for those vulnerable to discrimination and exploitation. Others are intrinsic to the social task of public welfare and must be met if the promise of a Great Society is to be achieved. For the very com-

plexity of the social organization, on which our vaunted prosperity depends, demands an equivalent assumption of social responsibility toward its individual members. Not only can we well afford the costs involved, but we can *not* afford to ignore the responsibility to further this adaptation at all levels of our community life. This is the core job of public welfare to the achievement of which the Advisory Council's recommendations are directed.

### ***Why a National Program?***

The United States is a single Nation, operating within a nationwide economic system, and committed to a single set of social values. The mobility of its population is not only necessary to the functioning of the economy but is guaranteed by the Constitution. Its citizens have the right to expect comparable protections wherever they live and wherever they may move in the interests of their own and the Nation's welfare. Only through the leadership of the Federal Government, agent of all the American people, can this goal be achieved. Not only does it require a national program standard but a plan of financing which recognizes that the costs and burdens of such a standard tend to fall most heavily on those areas of the country least able to bear them. Experience has shown that the Federal Government must be prepared to carry the additional cost to the States of the standards it imposes if they are to be effective. A guarantee which is not supported by adequate nationwide requirements and financing is—in the realities of modern America—no guarantee at all.

### ***Why a Plan of Federal-State Cooperation?***

Public welfare has by tradition and Constitutional interpretation been an administrative responsibility of the States and their political subdivisions. There are many advantages in building on this existing nationwide institutional base and



the Council believes its proposal would successfully reconcile the values of national program standards with decentralized administration. Alternative plans for Federal administration of minimum income guarantees seem to assume that we will never be able to prevent or greatly reduce poverty by other measures and must, therefore, retool our assistance program on a depersonalized basis to carry a major part of the load. The Council's recommendation, on the other hand, assumes that a reduction in the extent of preventable poverty will serve to emphasize the individualizing service role of public welfare as a comprehensive program of aid and services functioning at a neighborhood level.

Recognizing, however, that the success of any innovation depends upon its acceptability to those with the means and authority to make it work, the Council recommends a limited transitional period during which the States would have the option to continue under the existing assistance and child welfare titles of the Social Security Act. Frequently time is required for States to evaluate the full advantages of a new proposal and make the necessary legislative and administrative changes. The Council's recommendation in this respect follows the precedent of optional alternatives already adopted by the Congress with respect to titles XVI, XIX and the provisions for social service reimbursement but offers an unprecedented incentive in its financial and administrative advantages to the States as described below.

#### ***Why the New Pattern of Financial Sharing?***

Under the Council's proposal, which is the very essence of simplicity, the States would be offered a new kind of relationship to the Federal program: basic Federal financing on a lump sum residual basis in return for (1) the adoption of minimum national program standards and (2)

the investment of a fixed State share which would be predetermined according to objective criteria related to fiscal capacity and effort. States wishing to use their own funds to move above the prescribed national minimum would, of course, be encouraged to do so. But within the prescribed national standards the responsibility of the States would be fixed.

There are clear advantages to both the Federal and State administering agencies in such a plan. It would obviate much of the elaborate paperwork now made by after-the-fact auditing of individual expenditures to meet complex reimbursement formulae. It would overcome the differentials in Federal matching which have discriminated so severely against children under both the AFDC and child welfare programs. It would give the States great freedom in the internal organization of their programs and the distribution of their resources.

But the principal advantage is that it would clearly implement the concept of minimum national standards by placing on the Federal Government the full responsibility for the additional costs of the policies and levels of benefit it prescribes.

#### ***Why a National Floor Under Assistance Payments?***

Present variations in the levels and scope of income guarantee are unconscionable by any measure. Once the practical limitation of State fiscal capacity has been eliminated by the plan of financing proposed by the Council the logic of nationwide Federal standards becomes incontestable. Just as minimum wage legislation places a floor under most wages so such a standard would place a practical floor under the American level of living. Differentials in the costing of such a level of living could be objectively determined by periodic spot checks such as those now made by the Labor and Agriculture Departments.

There are many advantages to the States themselves in such a national floor. For the States where standards are now low it would act as a powerful lever in upgrading the economic level of the whole population. For the States where standards are higher it removes the argument for residence restrictions based on the assumption that assistance serves as an incentive to migration. But the greater long run advantage lies in the fact that people who are in fact moving under the inexorable pressure of labor-market changes would not bring with them the accumulated handicaps imposed by prior economic deprivation.

For the Nation as a whole a floor under income constitutes a clear declaration of conscience and of practical intention to move above that level. All our experience has shown that it is the practical minimum which acts as a lever on other sources of income in the total dynamic of income policy. The Council does not recommend a floor under income on the defeatist assumption that millions of Americans must settle for a minimum level of living dependent for its financing on the more affluent majority. Its advocacy of this step is based on the positive belief that this is a practical step toward minimizing that depressed minority by assuring a guaranteed level of living and service.

#### ***Why Are Services Essential to a Program of Basic Social Guarantees?***

The goal of the Great Society assumes a social setting in which all individuals and families are able to realize their full potential for self-realization and participation in community life. This means that every child should be assured the supportive care necessary to his growth and development, that every individual should have available to him necessary help when age, disability, or isolation creates need beyond the scope of his personal or family resources, that no one should feel

lost in the present day variety of specialized programs, and that no community should lack a focus of responsible leadership in assuring that existing needs are met and new services developed as new needs emerge. This is the essential service task.

The Council's recommendations assume that the proposed program of basic social guarantees must combine provision for these services with those for assuring minimum income and that these services should be available as a matter of legal right to all who need them. From the point of view of individuals and families experiencing difficulty or needing help, their problems do not appear in neatly segmented categories; their need is for a single source of aid or guidance. The overburdened mother suddenly left with several children may need day care or other services as much as income. The chronically ill older person requiring constant care needs help in locating as well as paying for a nursing home or other suitable arrangements. But within the proposed comprehensive financing pattern the responsible public welfare agency would have much wider freedom than at present in organizing the actual administration of specialized services in such a way as to make the best use of available resources in meeting actual need.

The Council proposes that the concept of legal entitlement to specified services be extended as rapidly as universal availability can be assured. This challenge is nowhere more apparent than in the area of our oldest social service responsibility, that of child welfare services. The vitality of any society can be measured by the way it treats the children on whom its own future health depends. Adults who in childhood have failed to receive the physical and emotional nourishment necessary for their own best development become, in their turn, inadequate parents, poor citizens, and economic misfits, incapable of the adaptations required by our technological society. Somewhere this cycle must be broken and this is the



task of those social services broadly covered by the term "child welfare." The Council proposes that these services be extended to all who need them on the basis of a legally enforceable right.

Historically child welfare services have been centered on the most obviously vulnerable child: the child left without adequate adult protection because of death, illness, desertion, neglect, abuse, or inadequacy on the part of one or both parents. Substitute care has been provided in the form of placement in a foster home or institution or through adoption. Recently the concept of child welfare has widened to include measures to improve the situation of the child in his own home through the counseling of parents, the provision of ancillary services, such as day care and other group activities, specialized services for children with particular physical or psychological handicaps, etc., and the provision of homemaker service when the mother is ill or absent or otherwise unable to meet her basic responsibilities to the family. The potential scope for services of these kinds is almost unlimited and offers a new frontier in our increasingly service oriented economy.

The existing program of child welfare services has pioneered in all these areas but coverage is so spotty both geographically and in scope of benefits that it offers little guarantee of protection to the Nation's children. Some of the most vulnerable, especially children in minority groups, have had the least protection where they need the most. Adapting to these needs and deprivations as best they can, today's neglected children become tomorrow's social problems. The Council believes that a nationwide guarantee of protection and help to these children should have a top priority in the Great Society program.

While child welfare services have the longest history among the social services, the role of services generally in our society is currently experiencing an explosive growth in extent and variety. On all sides new developments and ex-

periments are responding to the demands of an increasingly complex, changing, and urbanized environment in which the traditional role of family and neighborly mutual aid requires these supports and supplementation of organized measures. Some of these services are highly specialized requiring the competence of professional social workers while others, under professional supervision and organization, can be effectively rendered by individuals with special but sub-professional training. For example, the family of small children temporarily deprived by illness of a mother's care or the homebound elderly person of limited strength and mobility can be helped to maintain his accustomed way of life by a homemaker trained for that particular function, working under professional supervision.

Services are important not only in assisting families and individuals in situations of special crisis and continuing need; they also become increasingly essential as the inescapable specialization of community services confronts people with a complex and often baffling maze of benefits and services. People need a readily accessible source of advice and counsel in negotiating the complexities of finding the best answer to all requirements and desires. Neighborhood centers should be universally available as a source of advice, help, and service to people of all income levels. For while poverty compounds the difficulties that create a need for social services, the pressures of modern life do not limit this need to the poor.

Helping individuals is, however, only one side of the social service job. As the need and demand for social services grow so does the complex task of organizing community resources—governmental, voluntary, and the traditional method of neighborhood self-help—in a way that creates a coherent network of answers to those needs and demands. Provision must be assured not only for this kind of coordinated approach to social

services but for one in which all elements of the local community, including those who need and benefit from such services, have a voice in the way they are provided.

The service functions of public welfare, while less conspicuous than those of assistance in the present scene, stand on the frontier of a new phase in American social development. Already a majority of those in our working force are engaged in service occupations. As technological developments increasingly turn over to machines the traditional jobs of producing and distributing material goods, the expansion of needed services opens up new careers for those whose labor is freed from these ancient imperatives. Social services, like those in education, health and recreation, are not only needed by people in their role as consumers but are also a necessary development in furnishing them with outlets to serve their society in the role of workers.

#### ***Why Emphasize Legal Right and Entitlement?***

All social welfare programs are based on the recognition of a social risk which warrants social remedy in the form of special benefits and protections. Public assistance is a remedy for the risk of economic deprivation and child welfare a protection against the risk to a child of failure of normal parental care. But a protection which is not available to all who incur the risk under a rule of enforceable law is a gratuity subject to elements of chance or the caprice or prejudices of those who determine its policies or control its administration.

The federally aided programs of public assistance under the Social Security Act are the one area of social protection against the risk of actual poverty which carries built-in provisions for legally enforceable entitlement. Recently the concept of legal entitlement to public assistance has received new emphasis through rulings of the Federal department and the growing interest of

the legal profession. The Advisory Council wishes to give its full support to this development and recommends its further extension to all areas of public assistance and social services.

The very concept of a guarantee assumes objectively determinable rights for all those who are eligible for the benefit or protection. Two conditions are essential if such a right or guarantee is to become a practical reality: (1) the benefits must be available in sufficient quantity, quality, and distribution to meet the need toward which they are directed on the basis of a "reasonable classification" and (2) the practical means must be provided to assure their equitable availability to all those entitled to them. While the latter requirement is best served by a mechanism for appeal outside the line of administration with an ultimate recourse to the court system in cases of ambiguity, it also requires clearly and publicly stated policies toward which the appeal may be directed and the services of a professional—typically an attorney—in marshalling the facts and arguments in behalf of his client.

There are many today who express a sincere anxiety or alarm lest the growing interdependence of people in the modern world, reflected in turn in their growing dependence on the instrumentalities of government, throw into imbalance the carefully designed weighting of rights reserved to the individual and powers assigned to the State. These people fear that a beneficent State may become, in effect, an oppressive State. But again there is little value in closing one's eyes to the practical needs of the day or mourning for the different conditions of an earlier time. The only practical remedy for this legitimate anxiety is to accompany each new assignment of responsibility to governmental programs with equivalent protections for the rights of those affected by those programs. In this sense the Advisory Council's emphasis on rights and guarantees to the citizen in his most vulnerable situations follows the highest tradition of American democracy.



## PROFILE OF AN AFDC CASELOAD

The necessity of having highly skilled and qualified public assistance personnel is demonstrated by examining the components of an "average" caseload in the program for Aid to Families with Dependent Children (AFDC).

The Caseload of 63 families includes:

### THE FAMILY

- 31 families with three or more children
- 9 mothers who are less than 25 years old
- 27 mothers who have had eight or fewer years of education
- 18 mothers with no work experience
- 19 mothers who are either unskilled or are domestic workers or farm laborers

These 63 families would have a total of 190 children including:

### THE CHILDREN

- 63 who are below school age
- 1 who is of school age but is too incapacitated mentally or physically to attend school
- 3 of school age who are not attending for other reasons
- 132 who have no father living at home
- 20 who have no mother living at home
- 41 who have an incapacitated father
- 46 who were born out of wedlock

This is a minimal statement of the health problems of the 190 children, based upon the caseworker's observation. On the basis of past findings, medical examination would reveal that about 170 of the children have health problems.

### THE HEALTH OF THE CHILDREN

- 11 who have a visual defect
- 3 who have a hearing impairment
- 4 with a speech defect
- 3 with heart abnormalities
- 4 with an orthopedic impairment
- 17 with a dental impairment
- 5 who are mentally retarded
- 6 who have emotional or other neurotic disorders

Source: U.S. Department of Health, Education, and Welfare; Welfare Administration. Bureau of Family Services. April 1963. *Characteristics of Families Receiving Aid to Families with Dependent Children, November-December 1961.*

*"A nation's greatness is measured by its concern for the health and welfare of its people. Throughout the history of our democracy, this commitment has grown and deepened."*

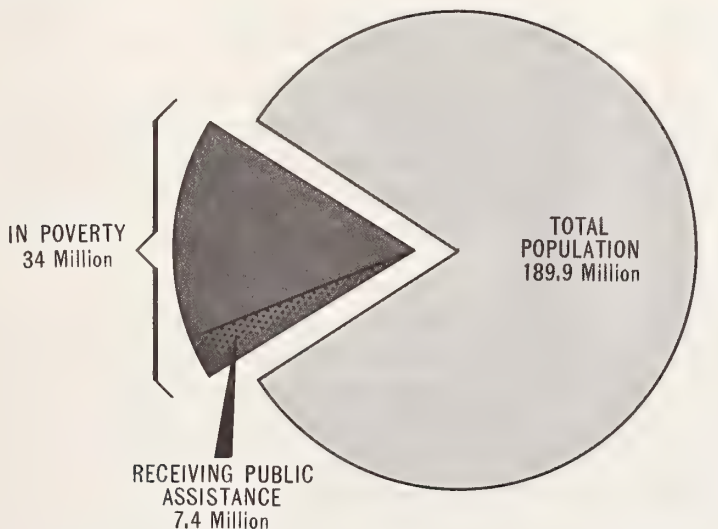
LYNDON B. JOHNSON  
March 1, 1966

## I. INTRODUCTION

THE REPORT of this Advisory Council on Public Welfare is made in a time of unprecedented national concern about the causes and consequences of many still unresolved social problems.

Currently the whole country is engaged in a massive reexamination of its resources and institutional arrangements in the light of its commitment to the solution of these problems. This is the meaning of the "War on Poverty" and the "Great Society." The work of this Advisory Council is part of this larger whole. It has been our task to identify the role of public welfare in this national quest and propose the changes needed to make the fullest use of its potential in that quest.

### PROPORTION OF POVERTY GROUP RECEIVING PUBLIC ASSISTANCE, 1964



Sources: U.S. Department of Health, Education, and Welfare; Welfare Administration. Office of Economic Opportunity. *Dimensions of Poverty in 1964*. October 1965.

As the Advisory Council's study of the role and the effectiveness of the Nation's public welfare program developed, a number of basic questions emerged. The answers to them are the backdrop against which the Council's report can be viewed in its proper perspective.

Those questions, the distillation of many asked again and again by the appropriations committees of the Congress, other legislators, members of the public, the press, and many of the witnesses who appeared at the regional hearings of the Council, can be stated in the following terms:

1. What is the role of public welfare in modern American society?
2. Why are there so many Americans in need of public welfare in a time of prolonged and unprecedented prosperity?
3. Why are the costs and numbers of recipients of public assistance rising?
4. Why are recent measures, such as the Economic Opportunity Act and many others, not reducing the need for public assistance?
5. What are the possibilities for self support among the present clients of public welfare programs?
6. What should be the extent and nature of Federal responsibility in the administration and financial support of the public welfare program, including financial aid, medical assistance, and a wide range of social services?

#### ***1. What is the Role of Public Welfare in Modern American Society?***

The public welfare program is the channel through which the Government assures each individual and family that their basic living needs will be met. When, because of age, illness, disability, or other factors beyond personal control, individual initiative cannot produce food, clothing, housing, medical care, or the other essentials of life, the public assistance program stands as a basic income guarantee.

The social services component of a modern public welfare program offers counseling and guidance in individual and family problems to persons in all walks of life. It holds great potential for the prevention of dire poverty, isolation, delinquency, the breakdown of family life, and many other social problems and for rehabilitative and treatment services for already existing problems of social or economic maladjustment.

Migration to the cities, automation, social isolation, racial discrimination, age, disability, lack of education in an economic structure that

has an ever-shrinking number of places for the unskilled—these are among the major factors that bring people to welfare agencies seeking public social services or financial aid.

To discharge its current responsibilities and to exercise its full potentials, the public welfare program must provide: (a) *A minimum level of living* below which none need fall; (b) *help for children* to rise above handicaps of deprivation or neglect; (c) *guidance and counseling* to families and individuals in need of assistance in resolving or preventing personal or family problems; (d) *medical care* for all who have need of it but cannot pay for the costs; (e) *rehabilitative services* for the disabled to attain or retain the fullest use of their capacities; (f) *special services* for the care and comfort of the aged; and (g) *training or retraining services* as part of comprehensive services for potentially employable persons.

The public welfare program provides supplemental and supportive services for individuals and families who, for a variety of reasons, cannot solve their problems in our complex modern life without special help. In this role, it is becoming the modern equivalent of the neighborly community or the large multigeneration family of a simpler, more rural age.

The importance of a fully effective public welfare program, available as a matter of right to all who need its services, has gained increasing recognition as a governmental program essential to the health and well-being of the body politic in a country committed to the realization of the values of a Great Society for all.

## **2. Why are There so Many Americans in Need of Public Welfare in a Time of Prolonged and Unprecedented Prosperity?**

It has become a virtual cliché in reports like this to refer to the complexity, interdependence, and pressures upon the individual in contemporary social organization. But when these same pressures bring an increasing number of persons to the public welfare agency, the truism is too often forgotten.

During the past few years many preconceptions about the poor and the dependent are giving way before the manifest social effects of technological change, urbanization, racial discrimination, and weakened family structures.

America is discovering that in a prolonged period of continuous economic growth there are still more than 34 million of its citizens living in bleak and separate prisons of poverty. It has become obvious that it will take more than great general prosperity to free them. Only a short time ago most of us believed that it would.

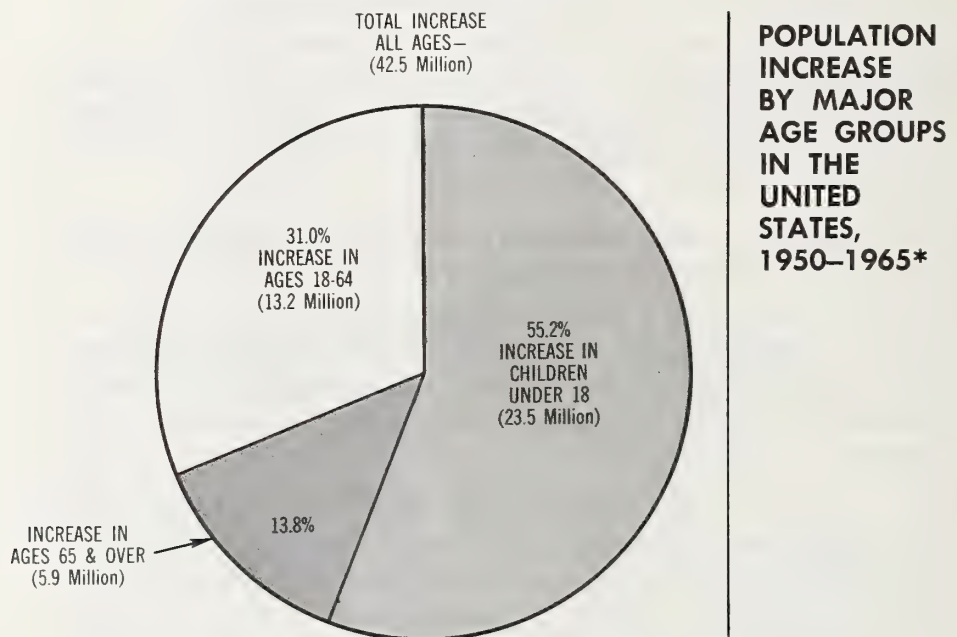


We have discovered that the economic and social pressures generated by a swiftly developing technology fall with unequal weight upon various members of our society.

Tenant farmers forced into urban ghettos by the mechanization of farming are expected to adapt like 19th century settlers on the western frontier or experienced assembly line technicians. Old people, displaced in today's mobile and single-family way of life, are hidden out of sight in the lonely isolation of rooming house or nursing home. Children—for all our public affirmations—are not only neglected but expected to bear the full burden of the alleged deficiencies of their parents. These are only a few examples of the ways our failure to adapt our institutional structure to changing needs and conditions has taken its toll from those least able to protect themselves.

Additional factors perpetuate poverty and deprivation in the midst of prosperity:

As the total population grows, the dependent age groups—the young and the old—increase at a faster pace while the wage-earning group becomes relatively smaller.



\*Totals may not add due to rounding.

Source: U.S. Bureau of the Census. *Current Population Reports*, Series P-25, No. 276 (November 19, 1963) and No. 321 (November 30, 1965).

Many measures which benefit most Americans have little or no effect on those at the bottom of the economic ladder. For example, Federal income tax reductions do not help the family head or older person whose income is so low that he pays no tax. Similarly, new services or programs frequently do not reach many of the most disadvantaged who so often dwell apart from the community in isolation and hopelessness.

Poverty breeds poverty. As our institutions become more complex, the children of the poor—without proper food, housing, education, parental care, medical care, or social services—face an even wider separation from the main body of the community than did their parents.

The complexity of the social organization upon which our prosperity is built demands an assumption of social responsibility toward its individual members through a wide variety of measures to prevent or alleviate poverty. Unless that demand is met, social problems associated with poverty will persist even in the face of ever growing abundance; the rights of individuals in our democratic society to essential services will continue to be disregarded.

### ***3. Why are the Costs and Numbers of Recipients of Public Assistance Increasing?***

The congressional appropriations committees, on several occasions, have expressed concern about the rising costs of public assistance, particularly since the 1962 amendments to the Social Security Act were designed to provide social services to public assistance clients which would enable some of them to become more self-sufficient. This is a question that concerned the members of the Advisory Council as well.

The major factors accounting for the rise in public assistance costs and number of recipients are:

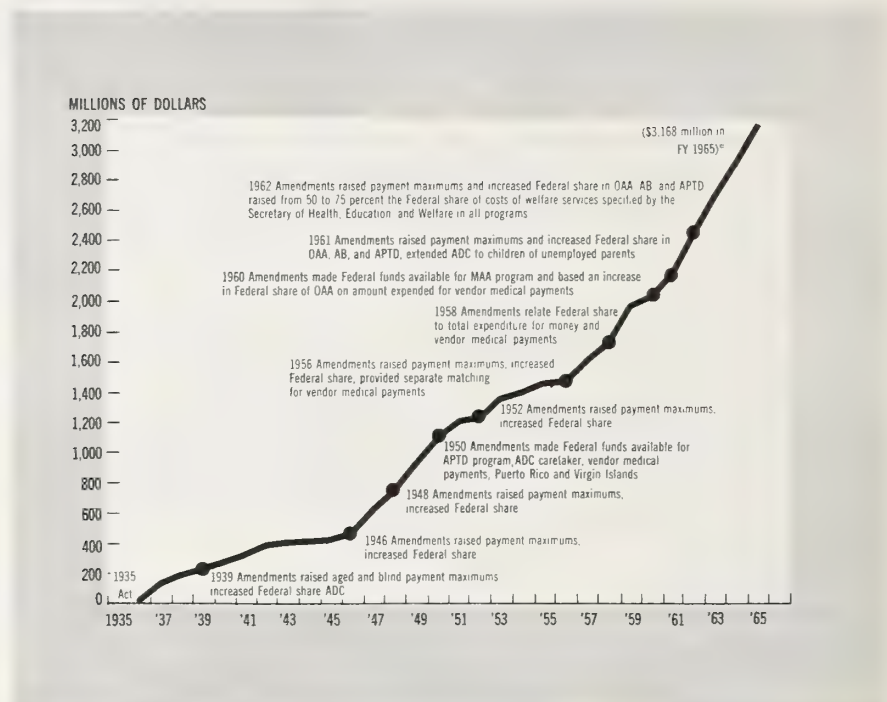
- a. The progressive Federal legislation of recent years extending public welfare services, benefit levels, and coverage inevitably results in greater dollar costs. Federal costs are greater also because of the increases in the Federal share of the costs of State and local public welfare programs provided in this legislation.

It must be noted, however, that while actual dollar costs have risen, public welfare expenditures have decreased as a percentage of national personal income and gross national product.<sup>1</sup>

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<sup>1</sup> See chart, p. 14.

## FEDERAL LEGISLATION AND ANNUAL EXPENDITURES FROM FEDERAL FUNDS FOR PUBLIC ASSISTANCE (FISCAL YEARS 1935-1965)



\*This figure does not reflect the impact of the 1966 Social Security Amendments including medical assistance, increased Federal participation, earnings incentives, etc., since expenditures under these Amendments were not made until fiscal year 1966.

Source: U.S. Department of Health, Education, and Welfare; Welfare Administration. Bureau of Family Services. March 1966.

b. As previously pointed out, the two segments of the population most likely to be dependent upon public assistance—the young and the old—have increased at a greater rate than the rest of the population.

As of July 1964, almost half of the people in the United States were under 19 years of age or 65 and over.

With relatively fewer in the wage earning group to support more in the dependent age groups, broadened social and economic measures will be needed to provide opportunities for self care and self support for those who can benefit from them, and increased means of aid and services for those who cannot.

#### **4. *Why are Recent Measures, Such as the Economic Opportunity Act and Many Others, Not Reducing the Need for Public Assistance?***

The poverty programs mounted under the Economic Opportunity Act have not yet substantially reduced the number of persons requiring assistance under the federally aided welfare programs because, by their very nature, they are not primarily directed toward the groups reached by public assistance. For most public assistance recipients, complete self sufficiency is not an immediate practicable goal. The Nation's first line of defense against the impact of dire poverty is public assistance. It is our practical approach to supplying urgently needed income to the economically deprived. The newer programs are generally future-oriented. The first problem of the Welfare Administration programs is the impact of dire poverty today.

For example, if two of the preschool children of a family being assisted by the Aid to Families with Dependent Children program are in a Head Start project, the chances are that these children will be better prepared to receive formal education, but it will not lessen the current needs of their families. Similarly, a young man enrolled in the Job Corps may be helped to find a place in the economy, thereby enabling him to become self sustaining. This will not, however, solve the problems of his younger brothers and sisters, nor of his unskilled and unemployed mother or father, or of his aged grandparents. Hopefully, it will help him become the self supporting head of a family, which may ultimately reduce future public assistance caseloads.

#### **5. *What are the Possibilities for Self-Support Among the Present Clients of Public Welfare Programs?***

In examining the nature of the public welfare caseload, it becomes evident that the significant potential gains to be made in achieving self-support lie primarily with the more than 3 million children on the Aid to Families with Dependent Children program. Keeping these children in school, in good health, in good housing, in decent neighborhoods, and in a society free of discrimination will go a long way toward assuring that these children will not be recipients of public assistance tomorrow.

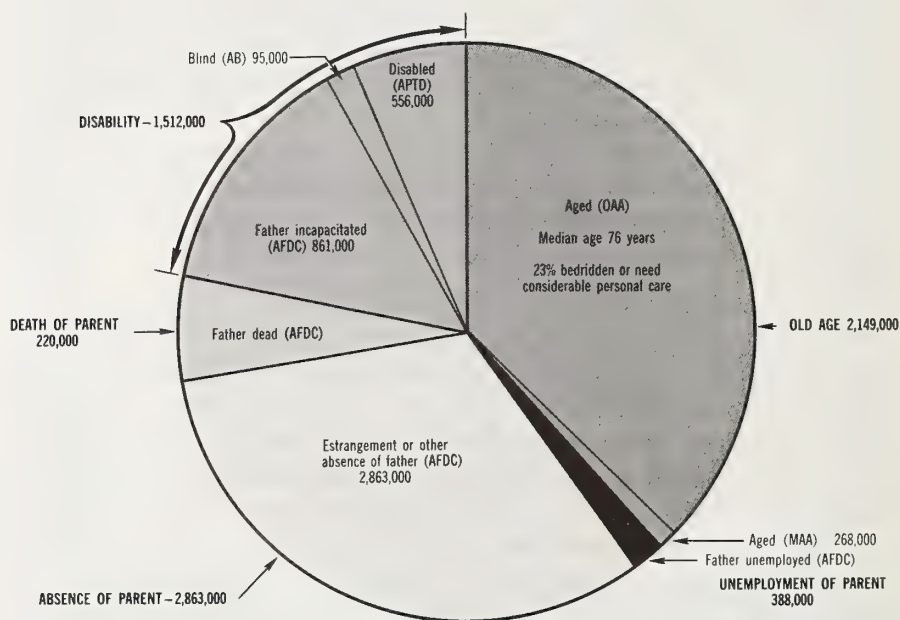
Many thousands of additional children will require the protection of child welfare services to grow up to become self-sufficient, contributing members of our society.

The general assistance caseload of approximately two-thirds of a million persons, now supported entirely by State and local funds, could probably be reduced if the more comprehensive services of the Federal-State programs were made available, particularly to the younger adults involved.

Aged public welfare recipients number about 2.1 million men and women. Most of the benefits and services for this group are designed to



## MAJOR CAUSES OF DEPENDENCY OF PUBLIC ASSISTANCE RECIPIENTS (JUNE 1965)



Source: U.S. Department of Health, Education, and Welfare; Welfare Administration. Bureau of Family Services.

promote self care, and to make remaining years reasonably comfortable and secure. For some it means helping them to leave costly institutions where they have been placed because there were formerly no provisions for their care in their home communities.

The average age of such public welfare recipients is over 76, and two-thirds are elderly women. While much can be done to help the aged recipient retain his place in the community and make life more comfortable, it is unrealistic to expect complete independence.

Most of the disabled and blind now receiving assistance, like the aged, cannot, even with modern rehabilitative services, achieve partial or complete self support. In addition to the physical handicaps of blindness, chronic diseases, or other disabilities, most of those dependent upon public assistance are advanced in age, possess little job skill, and have no more than grade school education. The program's goals are to make them as self sufficient as possible within their limitations.

This leaves a little more than 1 million adults who are parents of the over 3 million children covered by Aid to Families with Dependent Children program as the remaining group for special consideration.

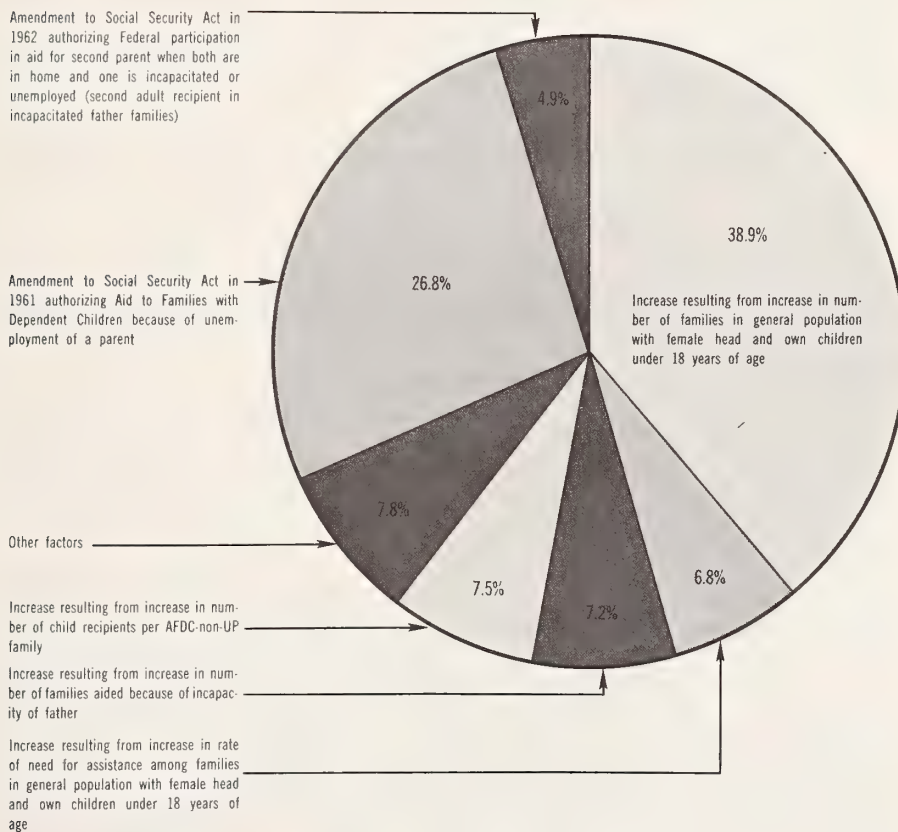
The parents of these children are divided as follows :

900,000 mothers

100,000 disabled fathers

50,000 unemployed fathers

## FACTORS CONTRIBUTING TO THE INCREASE IN THE NUMBER OF AFDC RECIPIENTS, JANUARY 1961 TO DECEMBER 1965\*



\*Percentages do not total 100 percent due to rounding.

Source: U.S. Department of Health, Education, and Welfare; Welfare Administration. Bureau of Family Services.

Few of the disabled fathers can be restored to self sufficiency as their handicaps are major and of long continued or permanent duration. The chances of moving the 50 thousand jobless fathers to self support are much better, given proper training, counseling and, often, basic adult education. Actually, 50 percent return to employment and hence support of their families after receiving assistance for an average of only 9 months.

But the bulk of the parents are mothers, most of whom have little or no job skills, an eighth grade education on the average, many mental and physical disabilities, and small children who can best be looked after by their mother in the home. It is estimated that between 200,000 and 300,000 of these mothers might become self sufficient if appropriate training can be provided, if jobs they can handle are available, and if suitable care is available for their children. (It should be noted that there are only sufficient approved day care facilities for the children of working mothers to accommodate a little over 300,000 children in the entire United States. Four million children under 6 have employed mothers and two-fifths of American mothers work. Fifteen million children under age 18 are in families living below the poverty level.)

. This examination of present caseloads highlights the fact that most public welfare recipients, with the exception of the children and the younger adults, cannot realistically be expected ever to become self sustaining.

Further, the growing national recognition that we can no longer tolerate the moral, social, and financial costs of destitution and that we have the capability to eliminate it will inevitably lead to expanding programs, additional services, and rising costs.

Changing economic and social factors, the dramatic emergence of many still unmet needs, and the national character of our major social objectives call for a new assessment of the respective roles and responsibilities of each governmental level.

Action is needed to assure that the objectives of broadened public welfare programs, made possible by congressional action, are achieved.

The hope that there would be equitable and adequate public welfare programs in all States as a result of Federal legislative action without mandatory provisions has not been realized. Some 30 years of experience in leaving the implementation of public welfare programs largely to the fiscal ability and willingness of the State demonstrates that inequities among the States, between programs, and most important between groups of recipients, will persist if the Federal Government does not assume a stronger leadership role.

**6. What Should be the Extent and Nature of Federal Responsibility in the Administration and Financial Support of the Public Welfare Programs, Including Financial Aid, Medical Assistance, and a Wide Range of Social Services?**

Effective Federal leadership does not mean Federal administration of State and local public welfare programs. It does mean, among other things, making available sufficient funds to enable all States to implement the programs authorized by Federal law. It means setting standards for the quality and administration of the programs, and it means enforcing those standards.

**Without Strong Federal Leadership and Support, It Is the Opinion of the Advisory Council That Present Imbalances Will Continue and Are Likely to Increase.**

To assure adequate funds to all States for implementing the public welfare programs made possible by Federal law, revision of present Federal-State matching formulas is essential. There is urgent need to implement the recommendation of this Advisory Council for new ways of putting Federal and State money together to achieve the objectives of the public welfare program, including a larger role by the Federal Government in such financing.<sup>2</sup>

Financing and program standards are inextricably bound together. All States, with their varying financial resources, cannot be expected to meet Federal standards of acceptable levels of quality and adequacy unless there are sufficient funds available to them.

Moreover, even sufficient funds and standards of quality and equity may well prove futile without an essential third element—effective implementation.

As a Nation, we have recognized the need for effective Federal implementation in health matters, as in our food and drug laws; in business, in our anti-trust laws; and even in the building of roads wherein Federal funds are withheld if Federal standards are not met. The aged, the disabled, the ill, the hapless young, and all those whose circumstances require them to seek financial aid, medical assistance, and social services are entitled to the same, even-handed treatment by their Government.

A far greater measure of Federal leadership and the establishment of reasonable standards which all States would have to meet in order to qualify for Federal funds were urged by many citizens who appeared at the regional hearings held by the Advisory Council. Many State and local welfare officials strongly advocated a larger Federal Role.

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<sup>2</sup> The Council's recommendation on a new pattern for financing appears in ch. IV.



**In the Council's View, the Recognition and Acceptance of the Principle of Greater Federal Responsibility Is Fundamental to Assuring an Adequate, Nationwide Public Welfare Program.**

The answers to these and many other questions concerning the place and nature of the public welfare system were developed in the deliberations of the Advisory Council on Public Welfare, the reports prepared by expert staff, and the testimony of a cross section of citizens in the regional hearings.

Public welfare can discharge its responsibility only if the scope and limits of its place in society are understood. At present it is asked to do too much in some situations and too little in others. It cannot serve either as a universal panacea or a universal scapegoat for the ills of our complex society.

No public welfare program, no matter how well devised or supported, can or should be expected to take over the job of substitute for a full-employment economy and an adequate social insurance system in assuring basic income and preventing poverty for most of the population. Neither can any program of public social services replace the traditional supports afforded by a warm friendly neighborhood, a network of satisfying personal associations, and community acceptance of all individuals and groups.

Public welfare, moreover, cannot substitute for the essential health, educational, and community services that strengthen the capacities of individuals to meet the requirements of modern life.

But public welfare, by providing basic services and income guarantees can and must serve in a complementary and supportive role to all. Its unique task is to stand as guardian of individual and family welfare in an increasingly complex and often depersonalized social structure.

As the Council proceeded in its study, the real question before it became:

***How Can the Public Welfare Program, Reaching Across the Nation Into Every Community, Be Strengthened and Thus Better Contribute to Assuring to Each American a Life of Dignity, Hope, and Opportunity?***

The recommendations of the Advisory Council on Public Welfare contained in this report constitute its answer to this question.

## Summary of Implementation of the Major 1962 Amendments in the 54 States and Other Jurisdictions <sup>1</sup> (as of March 31, 1966)

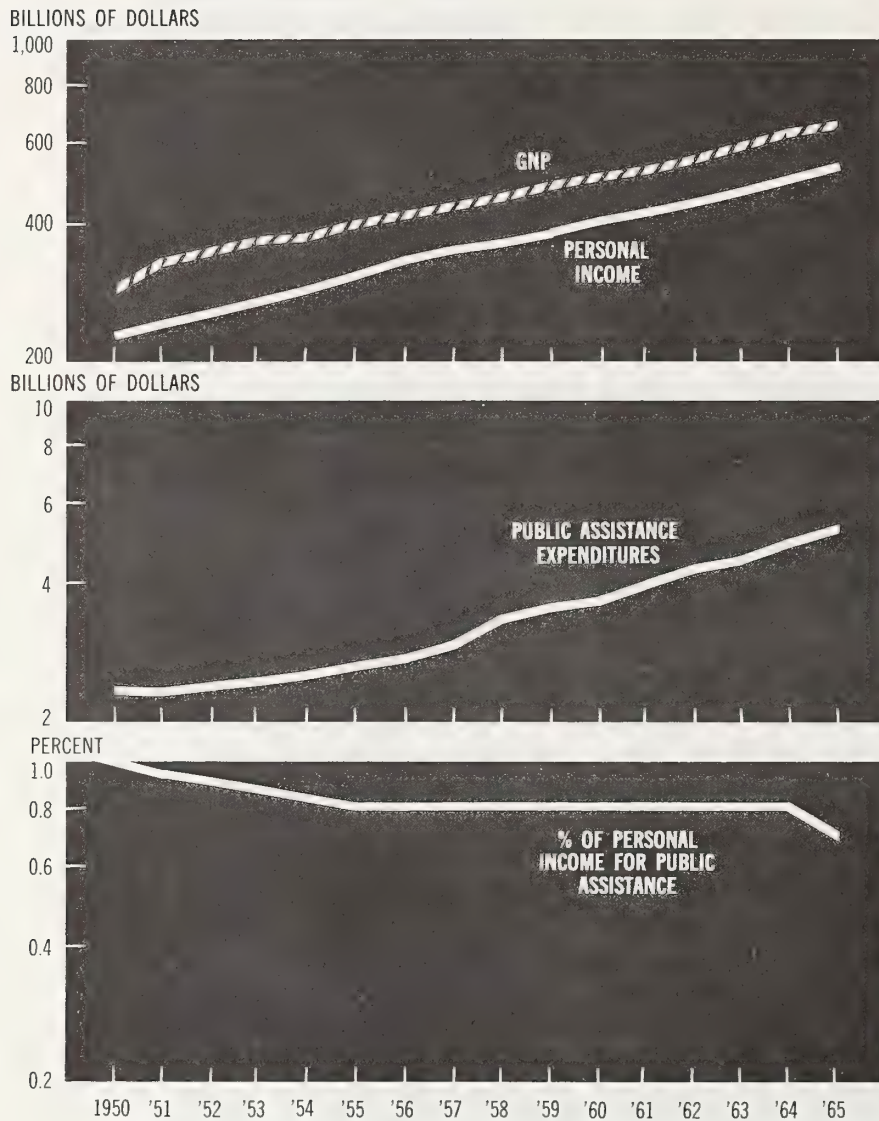
Social Services-----	53 jurisdictions with plans which qualified for the 75 percent Federal matching funds in at least one category (AFDC).
	39 jurisdictions with such plans in all four categories (OAA, AB, APTD, and AFDC). <sup>2</sup>
Community Work and Training-----	11 jurisdictions.
Unemployed Parent (AFDC-UP)-----	21 jurisdictions.
Earned Income Exemption (OAA)-----	18 jurisdictions. <sup>3</sup>
Conservation of Income for Future Needs of Child.	26 jurisdictions.
Medical Care for AFDC Adult-----	24 jurisdictions.
Protective Payments-----	7 jurisdictions.
Retroactive Payment of Medical Care----	29 jurisdictions.
Medical Care for AFDC Adult-----	16 jurisdictions.
Title XVI (consolidating adult programs)-	16 jurisdictions.

<sup>1</sup> See titles of Social Security Act, as amended, for specific legislative base.

<sup>2</sup> OAA—Old Age Assistance; AB—Aid to the Blind; APTD—Aid to the Permanently and Totally Disabled; AFDC—Aid to Families with Dependent Children.

<sup>3</sup> Nine States are now using the 1965 amendment which increases the amount of earned income exemption.

# **GROSS NATIONAL PRODUCT, PERSONAL INCOME, PUBLIC ASSISTANCE EXPENDITURES, AND PERCENT OF PERSONAL INCOME SPENT ON PUBLIC ASSISTANCE (1950-1965)**



Source: U.S. Department of Health, Education, and Welfare; Welfare Administration. *Social Development: Key to the Great Society* and U.S. Department of Health, Education, and Welfare. *Indicators*. March 1966.

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*"I believe that the American people feel that with the high production of which we are now capable, there is enough left over to prevent extreme hardship and maintain a minimum standard floor under subsistence, education, medical care and housing, to give to all a minimum standard of decent living and to all children a fair opportunity to get a start in life."*

SENATOR ROBERT A. TAFT  
New York University, February 15, 1949

## **II. A MINIMUM STANDARD FOR PUBLIC ASSISTANCE PAYMENTS**

PUBLIC ASSISTANCE PAYMENTS to needy families and individuals fall seriously below what this Nation has proclaimed to be the "poverty level." Federal participation in a nationwide program of public assistance payments that are grossly inadequate and widely variable not only perpetuates destitution and intensifies poverty-related problems but also contradicts the Nation's commitments to its poor.

The Advisory Council on Public Welfare believes that it is possible to develop a national standard for public assistance payments that will take into account any significant regional variations. It also believes that the establishment of such a standard is the very essence of our sincerity of purpose and that the ultimate success of our national effort to solve major social problems depends upon it. The Council also recognizes the importance of increased Federal responsibility in assuring the implementation of such a standard.

THEREFORE: *The Advisory Council on Public Welfare Recommends*

**A Minimum Standard for Public Assistance Payments Below  
Which No State May Fall**

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There were 34.1 million poor persons in the United States in 1964 according to the President's Council of Economic Advisers which classified as poor families of four persons whose annual income is less than \$3,000, and unattached individuals with incomes under \$1,500.<sup>1</sup>

Only a fifth of the poor (7.5 million out of 34.1 million) are now being helped by federally-aided State public assistance programs. Furthermore, they are receiving payments far below the nationally determined poverty figure of \$3,000 for a family of four, or \$1,500 for an adult living alone.

The national median payment, including vendor payments for medical care, for an Old Age Assistance recipient was \$77.55 a month, or \$930.60 a year; for a needy child, \$35.45 a month, or \$425.40 a year; or for a family of four, \$141.80 a month, or \$1,701.60 a year.

The national average provides little more than half the amount admittedly required by a family for subsistence; in some low-income States, it is less than a quarter of that amount. The low public assistance payments contribute to the perpetuation of poverty and deprivation that extends into future generations.

Most public assistance recipients are too old, blind, chronically ill, or severely disabled, or are mothers of small children, or are children too young to add substantially to their assistance payments, even if this were allowed without deduction by State standards.

## STATE STANDARDS

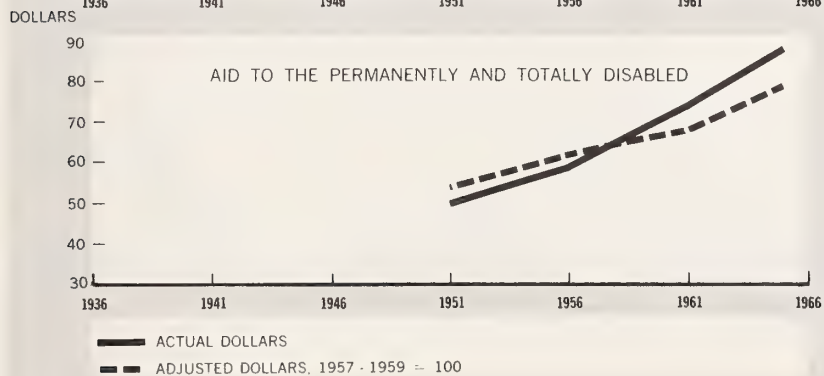
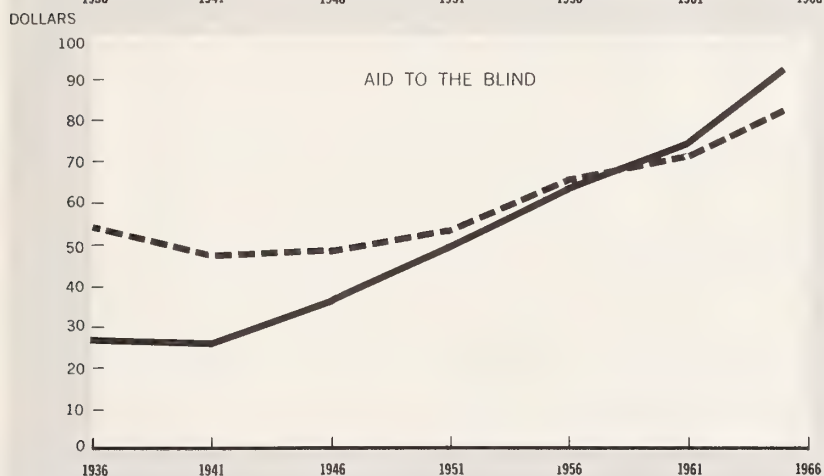
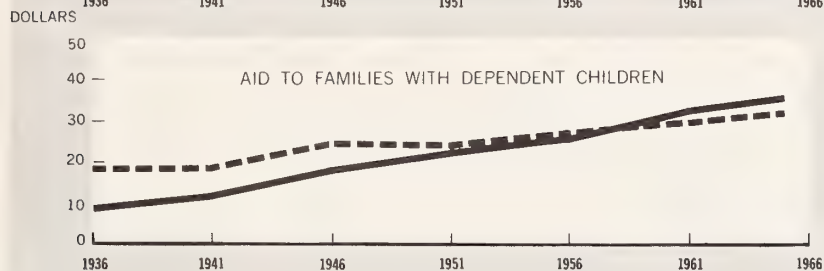
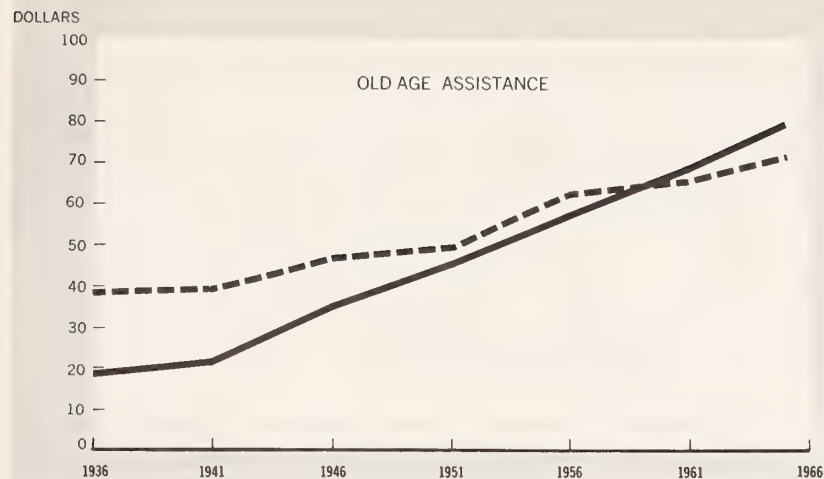
Under present provisions, each State establishes its own assistance payment levels. These levels not only reflect the State's financial capacity but also the social attitudes and judgment that color the climate of opinion surrounding public assistance.

The fact that prejudice persists toward recipients who are not dependent through choice, but are victims of economic, social, or health circumstances beyond their control is one of the fundamental challenges to which this Nation is now addressing itself.

Standards of need set by the States are generally very low according to testimony presented at the open hearings of the Advisory Council. A 1965 study of shelter allowances in the District of Columbia for families receiving public assistance revealed, according to an official of the Washing-

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<sup>1</sup> Economic Report of the President, January 1966, p. 111.



**AVERAGE  
MONTHLY  
PUBLIC  
ASSISTANCE  
PAYMENT  
PER RECIPIENT  
IN ACTUAL  
AND ADJUSTED  
DOLLARS  
BY PROGRAM  
(1936 TO 1965)**

Source: U.S. Department of Health, Education, and Welfare; Welfare Administration. Bureau of Family Services.

ton Urban League who appeared before the Advisory Council, that "40 percent of the recipients surveyed were paying 50 percent or more of their total income to rent rat-infested decaying slum housing. The affluent American cannot afford to budget more than 25 percent of his income for housing. As a result food must be sacrificed to rent. Moreover, to achieve lower rents and buy food many families must seek cheaper housing, smaller than their needs. Overcrowding results in building code violations, subsequent evictions, and never-ending search for adequate housing which does not exist, and often the final dissolution of the family."

Even within the low standards the States have established for minimum health and decency, a number of States, because of inadequate appropriations, must reduce the actual amount of the public assistance payment, regardless of the amount of need determined under these standards. For example, percentage cuts are imposed across the board; policies with respect to other income or resources or relatives' responsibility may be unrealistic; or fixed maximums may discriminate against the larger family. As a result, actual needs are frequently overlooked, understated, or ignored.

Some States, to meet the ever present problem of inadequate State and local appropriations, set arbitrary maximums on the amount of assistance payments—29 States limit arbitrarily the amount of the assistance payment in Old Age Assistance, Aid to the Blind, and Aid to Families with Dependent Children, and 26 do so in Aid to the Permanently and Totally Disabled. Other States pay only an arbitrary percentage of the need computed under the State standard; 3 States pay only a percentage of need in OAA and AB, 5 States do so in APTD, and 13 States in AFDC.

Standards of assistance and average payments are not only low; they vary widely from State to State, as evidenced in the range of average payments in March 1966 for a dependent child from a low of \$8.71 a month to a high of \$52.28; and for an aged recipient from a low of \$40.92 to a high of \$123.16. Should a child or an aged person be considered more important in one State than in another?

This and many other questions about the harmful effects of the low assistance payments were raised by most of those who testified at the regional hearings held by the Advisory Council. Many graphically described payments providing for less than minimum subsistence in such terms as "shockingly inadequate," "utterly indecent," "inhuman," "demoralizing existence grants," "tragically sub-minimum," "miring people into a poverty from which there is no escape," and "unrealistic in relation to current costs."

Some referred to the need for revising standards in relation to current costs noting that in many instances such standards had not been revised for many years, another result of inadequate funds.

In one jurisdiction it was reported that food allowances are still based on 1957 costs. In another, no adjustment has been made for clothing costs since 1950, for fuel supplies since 1956, nor for food since 1960. One State's last reevaluation of public assistance payments in relation to cost of living was made in 1958; in another, 1959. In still another State, there had been no adjustment for rising housing costs since 1950; in another, housing allowances are based upon 1956 rates.

The prevailing sentiment of many who participated in the hearings was expressed by Rt. Rev. Msgr. David Dorsch, director of the Associated Catholic Charities in Baltimore, Md., who said:

*"I do believe that in good conscience, Americans living in the most prosperous period of our history cannot allow human beings to live in such squalor and such deprivation and with inadequate health and food standards."*

Others commented on the paradox of spending millions of dollars to eliminate poverty for some, and to sustain it for others. According to Dr. Lemuel C. McGee, an executive of the Hercules Powder Co., and president of the United Community Fund of Northern Delaware in Wilmington, Del.:

*"Any war on poverty remains rather meaningless as long as most families obliged to survive on AFDC grants, General Assistance grants, or no grants at all are kept, by the system, at a sub-poverty level of living . . . For Federal monies to be poured into tragically sub-minimum grants and perhaps even cruel administrative practices seems unthinkable in a civilized society, and yet this is exactly what happens in State after State and day after day."*

## **HOW TO RAISE PUBLIC ASSISTANCE STANDARDS**

In the public hearings there was near unanimity of opinion about the urgent need to increase the amounts of payments to those persons dependent on public assistance, and the proposals most frequently made to achieve this were:

the establishment of a required national floor for public assistance payments below which no State might fall and still receive Federal funds;

relating the levels of payments to regional variations and differing State conditions as they affect cost of living;

increasing the amount of Federal participation to help States meet the cost of raising levels;



making the Federal share sufficient to bring payments up to the required national floor;

exemption of some earnings for all recipients;

using the same formula for Federal aid for all categories;

requiring States to meet 100 percent of need as established by the States themselves;

supplementing low earnings;

simplifying budgeting methods;

establishing procedures for keeping standards for payments current with living costs; and

elimination of maximums for payments.

In the process of assessment of public welfare program effectiveness, the Advisory Council gave careful consideration to the various income maintenance plans and issues under current discussion. These included the guaranteed annual income plans and the several negative income tax proposals. Demogrants, such as family or children's allowance plans, were also considered. Other related issues, including minimum wages, public works program projects, benefits in kind and tax equity measures also received attention.

After exploration of the objectives of these several measures as possible program plans to alleviate the impoverished conditions of the very poor, the Advisory Council turned its attention to the feasibility of implementing these programs.

There are great administrative complexities inherent in such problems as: verifying the family income level on a periodic basis; evaluating assets; and weighing the pros and cons of State and local interests which would include substantial financial contributions.

**These considerations have led the Advisory Council, at this time, to the conclusion that the greatest potential for strengthening income maintenance for the poor is through immediate improvement of the social insurance and public assistance programs.**

## **NEED FOR FEDERAL LEADERSHIP AND RESPONSIBILITY**

The majority of those testifying at the regional hearings of the Advisory Council not only made urgent pleas for increasing the amounts of

assistance payments but also expressed the conviction that increased Federal leadership and financial responsibility were essential if any meaningful change was to be achieved nationwide.

There are many advantages to the States themselves in the establishment of a national floor under public assistance payments. For the States where standards are now particularly low it would act as a helpful lever in upgrading the economic level of the whole population. In States where standards are higher it would refute the argument for residence restrictions based on the assumption that better assistance payments are an incentive to migration. But the greater long run advantage lies in the fact that people who are moving under the inexorable pressure of labor-market changes will not bring with them the accumulated handicaps imposed by prior economic deprivation.

## CONCLUSION

The Advisory Council on Public Welfare believes the establishment of a Federal floor under public assistance payments to be of prime importance. A proposal for financing such a national minimum for public assistance payments is discussed in chapter IV of this report.

For the Nation as a whole, a floor under income constitutes a clear declaration of conscience and of practical intention to eliminate poverty. In the total dynamic of income policy it is the practical step which acts as a stimulus to other sources of income. It is a mistake, however, to emphasize a minimum as an ultimate goal; rather it is one element in the achievement of higher goals.

Other reforms or improvements may bring about superficial or temporary gains in some States but unless a national, mandatory standard is set—low public assistance payments will continue to defeat the intent of public welfare and of this Nation's historic commitment to its poor. For the Federal Government to continue to participate in State programs that can never financially sustain even minimum levels of health and decency is to pursue a course that confounds both justice and logic.

As a Nation, we have reached a level of wealth that makes the elimination of poverty an achievable national goal. By 1975, the gross national product is expected to have more than doubled the 1960 level of \$503.8 billion. There are no technical, legal or financial problems that cannot be overcome if there is the will to do so. The long ingrained habit patterns of sentimental pity or thinly disguised contempt for those who can-

not, unaided, achieve a reasonable standard of living must be supplanted by national action firmly based upon principles of social justice.

As pointed out above, most of those receiving public assistance are too old, too young, too ill, or too disabled to be self-sustaining. Despite the justly celebrated American economic miracle, there will always be some persons who cannot make their way without help. To extend help so meager that it is impossible to maintain health or hope is to condemn these poor and, too often, their children to life sentences of hunger, disease, and squalor. The means of escape from the vise of grinding poverty are effectively blocked, especially for the children.

It is the Council's conviction that strong Federal leadership, combined with greater Federal financial responsibility, are absolutely essential to bringing substandard public assistance payments up to a proper and decent level.

The time for action is long overdue. This issue must be met without further delay if we are to end the anomaly of Federal subsidization of programs which keep over 7 million American citizens well below the poverty level.

**The Advisory Council on Public Welfare urges prompt, decisive action to bring the amounts of public assistance payments throughout this Nation up to a minimum American standard of health and decency.**

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*“. . . the major purpose of public assistance programs, that of helping people, is made unnecessarily difficult to achieve. This is because we have segregated human need into fragments based on causal or associated factors and have not attempted to deal with the fact of need itself.”*

MAURICE P. BECK, *Exec. Dir.*, Michigan Welfare League  
Advisory Council Hearing—Chicago March 26, 1965

### **III. A SINGLE ELIGIBILITY REQUIREMENT: NEED**

ELIGIBILITY REQUIREMENTS for public assistance under the Social Security Act were designed to deal with needs and circumstances of some 30 years ago. Since that time they have undergone the elaboration of repeated efforts to adapt once-useful concepts to changed economic facts, new social pressures, developing knowledge, broadened national goals, and limited State financial resources.

Today, lack of Federal provision for large groups of needy people, plus further limiting requirements for groups that are included, prevent many of the most destitute from receiving needed assistance. The innumerable fine distinctions, sometimes rigid and arbitrary definitions and interpretations, and an avalanche of technicalities consume much time and energy of staff that could be far better spent in aiding people in trouble. Moreover, applicants should be able to establish initial eligibility by statements or simple inquiry relating to their financial situation and family composition, subject only to appropriate sample reviews.

Federal action extending coverage to all needy people with available income falling below established levels and eliminating artificial barriers such as categories, imposition by States of provisions narrower than in Federal law, and restrictions not specifically mentioned or proscribed in Federal law, would represent a giant step forward in securing for all needy Americans the assistance necessary to sustain life and hope.

**THEREFORE:** *The Advisory Council on Public Welfare Recommends*

**A Nationwide Comprehensive Program of Public  
Assistance Based Upon a Single Criterion: Need**

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Only a relatively small segment of the needy are now helped by public assistance programs—about one-fifth of those in families having an annual income of less than \$3,000.

This is largely because (1) there are gaps in the categories of needy people included within the public assistance titles of the Social Security Act; (2) some States are not financially able or do not wish to participate in all programs provided under Federal law; (3) some States, for similar reasons, impose limitations that result in provisions narrower than those in Federal law or add additional restrictions not expressly prohibited by Federal law; and (4) standards of assistance in some States are so low as to exclude many persons with incomes beyond the State standard but far less than the currently accepted poverty level.<sup>1</sup>

Among the poor not being helped by any federally-aided public assistance program are:

most needy adults under 65 years of age who are unemployed or unable to earn an adequate income;

most needy children living with both parents or someone other than a close relative;

needy disabled adults who are not both permanently and totally disabled;

many children in need because of the unemployment of a parent;

needy otherwise eligible persons who have not resided in a particular State for a specified period of years;

needy mothers who are employable but for whom no jobs are available; and

persons rapidly losing their vision but not yet blind enough to qualify for assistance for the blind.

## **FEDERAL LAW EXCLUDES MANY OF THE NEEDY**

Under the public assistance titles of the Social Security Act, Federal aid is authorized to assist States, as far as practicable, to provide financial assistance, medical care, and appropriate social services only to specified categories of needy people: the needy aged, the blind, the permanently and totally disabled, and certain needy families with dependent children. No

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<sup>1</sup> See chapter II.

one else, however destitute, can qualify for financial assistance or other welfare services.

Persons ineligible under federally-aided programs may receive limited or sporadic assistance in some parts of some States from State or locally financed general assistance programs. While in some States this type of aid might be a little more adequate, in many of the poorest localities of the Nation it does little to alleviate the effects of stark poverty.

Many persons pointed out in the regional hearings of the Advisory Council that some States provide no funds for general assistance, or only poor relief in extreme emergencies, or general assistance may be available in some parts of some States which have very low standards. The situation described by Lloyd E. Rader, director of the Oklahoma Department of Public Welfare, was typical of many reports:

*"While the law authorizes we can make a \$35 payment, we don't have the money in our funds. The maximum monthly payment that we make to any family is \$20, and \$10 to a single person . . . it doesn't need any clarification or any discussion as to the adequacy of the family which is limited to \$20 a month, with a further limitation of only two payments, except in the extreme case. So, you might say we have little or no general assistance program in Oklahoma."*

Even within the categories of individuals included within the Federal law, there are further eligibility limitations on age and degree of disability.

## **AGE LIMITATIONS**

Under Federal law, Old Age Assistance is available only to adults 65 years of age or over. Some adults under 65 are in equal or even more desperate need. But there is no provision in the Federal law for aid to any adults under 65 unless they are needy because they are blind, permanently and totally disabled, or they are caring for children deprived of parental support because of death, incapacity, absence, or unemployment of a parent.

Aid to the Permanently and Totally Disabled is available only to persons 18 years of age and over. There are seriously needy disabled children below the age of 18 who are not covered.

Aid to Families with Dependent Children is available to children only up to 18 years of age unless they are attending school, and then up to 21 years of age. Older children may also be needy.

Medical assistance can be extended to children under 21 under

Title XIX of the Social Security Act, but there is no requirement to meet costs of dental care for any age group, or skilled nursing services at home for those under 21, to list only two of the more obvious deficits.

### **Limitations in Degree of Disability**

A needy disabled person to be eligible for assistance under the legal requirements for Aid to the Permanently and Totally Disabled must meet the requirements of total and permanent disability. Yet among the needy disabled there are some who are disabled but not "permanently and totally." Disabled persons with significant impairments, not necessarily permanent or total, might have a high potential for future independence if help were provided. Similarly, some near-blind persons do not meet the specified degree of blindness to be eligible for Aid to the Blind, but might be helped to conserve the sight they still possess.

Many who testified at the regional hearings of the Advisory Council argued for the elimination of categories in such terms as:

They exclude too many needy people, permit differential treatment between needy children and the aged, and do not contribute to keeping the family intact. The marginal wage earner, unable to provide sufficient income to meet his family's basic needs, often becomes the absent father so that his family can be helped in the categorical assistance program. If we really believe the family is the basic and most important unit of our society, the emphasis in welfare programs must shift from the individual to the family.

### **Complexities of Administration**

Many spokesmen appearing at the hearings cited the complex paperwork, the detailed investigation, accounting, reporting, and fiscal complexities associated with categories of assistance.<sup>3</sup> The value of freeing workers for constructive helping services was also stressed. They said the diversity of categorical programs, with separate Federal-State financial formulas and different eligibility conditions, as specified in law, create almost insurmountable problems in administering assistance and impede public understanding of the public assistance program. According to Stephen P. Simonds, director of the Bureau of Social Welfare of the Maine Department of Health and Welfare:

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<sup>3</sup> Recent Federal policy encourages States to adopt simplification (1) of eligibility determination through use of declarations and (2) budgeting methods to the extent possible.



*"Categories no longer serve a useful purpose. They impose unnecessary and arbitrary limitations, impair the State agency's ability to render early preventive and rehabilitation services, and involve a substantial amount of unproductive and costly administrative time and expenses . . .*

*"Even community leaders, having been informed and exposed to the problem, almost without exception, see elimination of categories as an important move to take; many are businessmen who can't understand why we allow this kind of inefficiency, cost, and duplication in our welfare programs."*

## **FEDERAL PROVISIONS ARE NOT FULLY UTILIZED**

Many needy people do not receive assistance under programs provided for them by Federal law because the State in which they reside does not participate fully in available programs.<sup>4</sup>

For example, Federal aid is available to families in need because of unemployment of a parent, but only 21 out of 54 jurisdictions have adopted this program, as of June 1966. Although Federal provision has been made for children in need because of the unemployment of a parent, relatively few such children in the Nation are being helped.

It has become increasingly clear that without the stimulus of increased and better designed Federal financial aid, the pace at which most States will participate fully in the Federal provisions for public assistance will remain too slow to meet clearly demonstrated needs. While progress has been made, there remains a very wide gap between what is planned, what is in operation, and the full potential available to the States.

## **STATE LIMITATIONS**

States that participate in a specific program authorized by Federal law may limit its scope through State policy, State law, or because of lack of funds. As a result, most States have placed some restrictions on their public assistance programs which result in denial of aid to persons who would be eligible under Federal law. Some of those restrictions are within choices left to the State's discretion under existing provisions of Federal law, others result from limitations not foreseen nor specifically prohibited by Federal law.

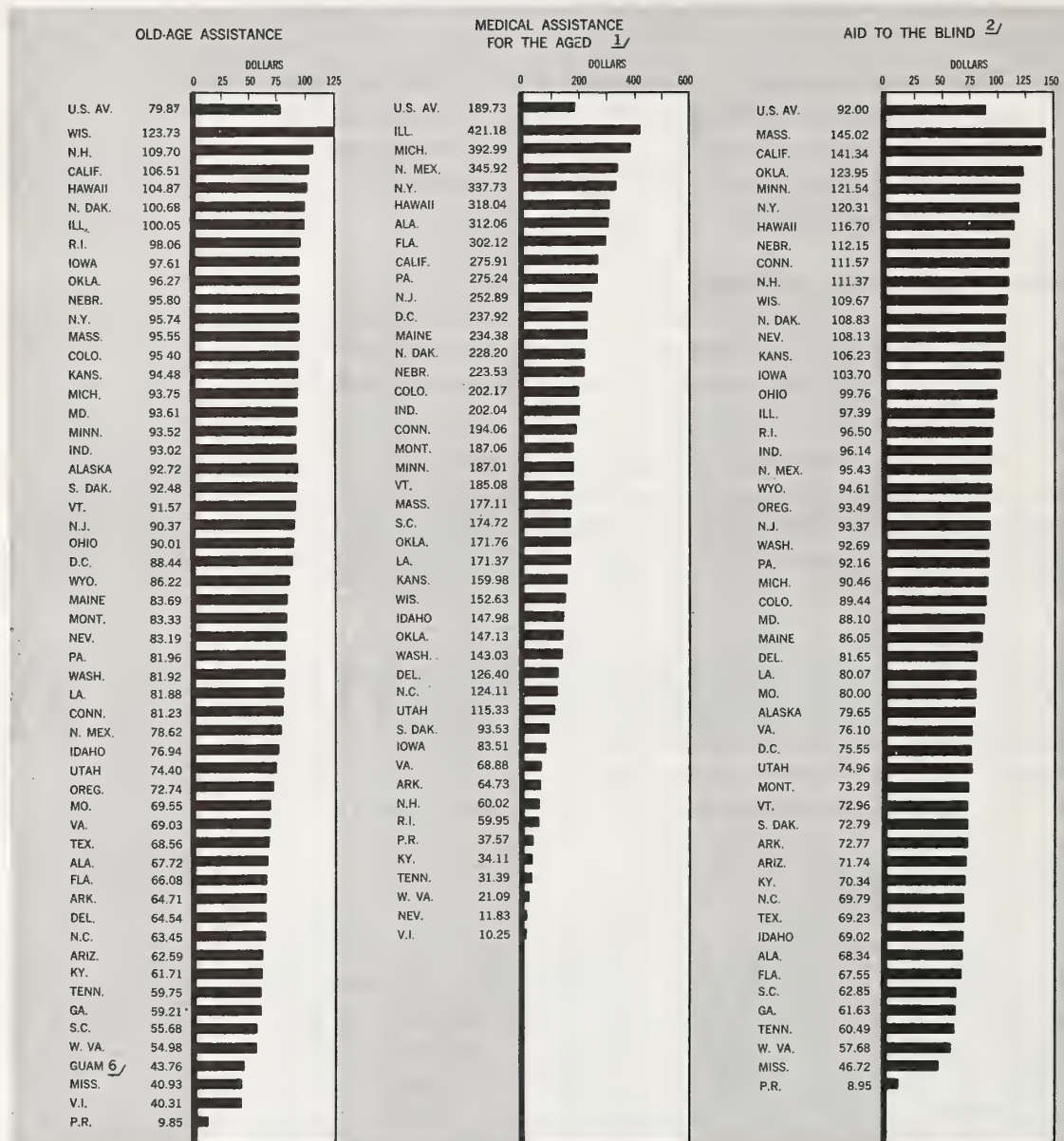
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<sup>4</sup> For summary of State implementation of certain federally-aided public assistance provisions, see page 13.



# AVERAGE MONTHLY PUBLIC ASSISTANCE

(Except for General Assistance, Includes

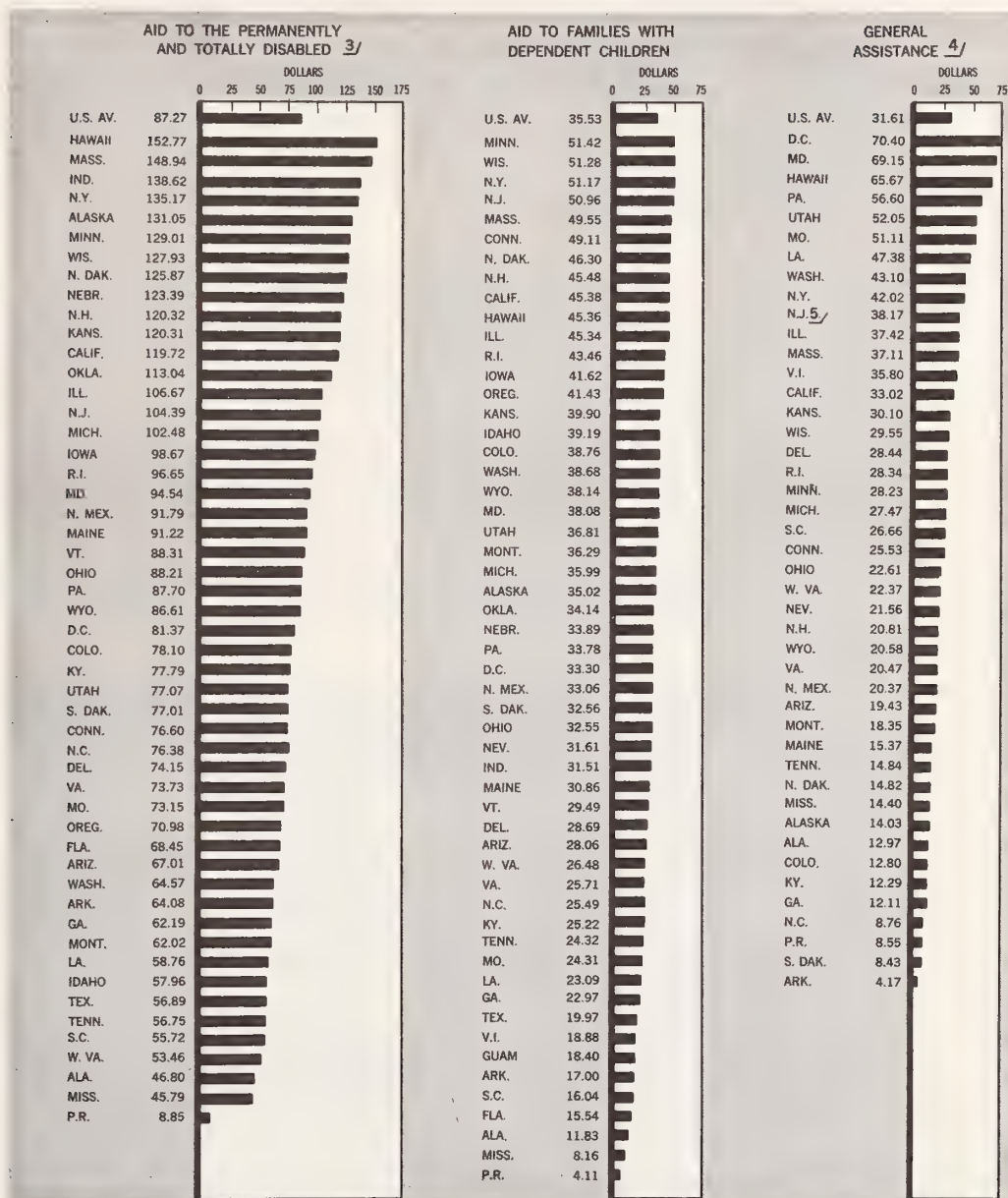


Source: U.S. Department of Health, Education, and Welfare; Welfare Administration. Bureau of Family Services.

<sup>1</sup> Not computed for Guam and Wyoming; fewer than 50 recipients; and Maryland, data estimated. No program in remaining States. <sup>2</sup> Not computed for Guam and the Virgin Islands, fewer than 50 recipients. <sup>3</sup> No program for Nevada. Not computed for Guam and the Virgin

# PAYMENT PER RECIPIENT, DECEMBER 1965

## Vendor Payments for Medical Care)



Islands, fewer than 50 recipients. <sup>4</sup> Not computed for Guam, fewer than 50 recipients; and Florida, Idaho, Indiana, Iowa, Nebraska, Oklahoma, Oregon, Texas, and Vermont, data not available. <sup>5</sup> Based on data including an unknown number of cases receiving medical care, hospitalization, and burial only, and total payments for these services. <sup>6</sup> November data; December data not received.

For example, some States deny assistance to persons considered employable even though no jobs are available to them. In 1964, more than 40 percent of all children of the poor lived in families where the breadwinners were employed year around but receiving wages too low to meet minimum family needs. Similarly, States may define "disability" or "employability" in ways that limit the number who otherwise might be eligible for aid. All these restrictive provisions serve to limit the number of persons that can be aided because of reasons other than their need for help.

## RESIDENCE REQUIREMENTS

Federal law does not prevent a State from having a residence requirement as a condition of Federal aid; it only prevents a State from having a durational residence requirement beyond a specified period of time in all programs except the medical assistance program.<sup>5</sup>

Federal prohibition of residence requirements as a condition of federally aided assistance would go far toward achieving nationwide, equitable public assistance programs. Precedents for prohibition of durational residence requirements for medical assistance in Titles I, XVI, and XIX of the Social Security Act point up the anomalous situation of Federal provision for medical care for the nonresident, but not for his basic maintenance or other needs.

Many needy individuals who may meet all other requirements for eligibility for financial aid except residence are thus denied assistance. This is especially hard on those confronted with an emergency before they have met the durational residence requirement.

Hardships of the many destitute nonresidents resulting from the imposition of residence requirements and the punitive effects of such requirements were reflected in numerous case situations cited at the regional hearings of the Advisory Council and the plight of the migrant as the "hidden-outcast poor" was of special concern.

The impact of residence requirements was summarized by Mrs. Savilla Simons, general director of the National Travelers Aid Association:

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<sup>5</sup> For Old Age Assistance, Aid to the Blind, Aid to the Permanently and Totally Disabled, a State may require no more than 5 out of the last 9 years and 1 year immediately preceding the application for aid. For Aid to Families with Dependent Children, a State may require not more than the following: (a) 1 year immediately preceding the application for aid or (b) born within 1 year immediately preceding the application, if the parent or other relative with whom the child is living has resided in the State for 1 year immediately preceding the birth of the child.

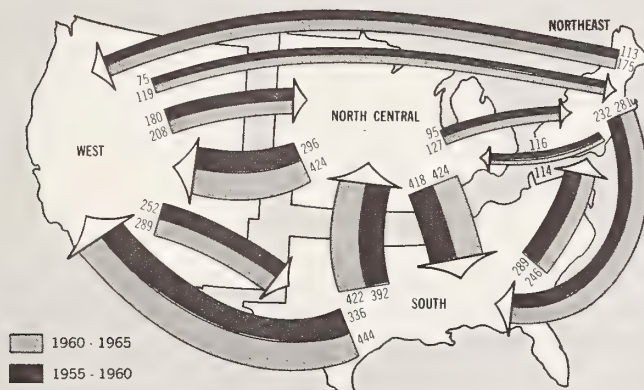


*" . . . present provisions and practices are tragically allowed to continue discrimination against those most rejected and most in need of special attention as part of the least visible, most helpless, and hopeless of the poor."*

State residence as a condition of receiving assistance is inconsistent with programs in which the Federal Government pays a preponderant share of the cost of the problems of need which are national in their origin and effects. It was perhaps appropriate in the past when each local community carried the full burden of aiding its poor; but residence requirements ignore the realities of today's mobile way of life.

Today, American mobility is an integral part of our economic growth. Studies show that most Americans move across State lines to take jobs, to look for work, or to be reunited with members of their families. To penalize people for the very mobility that is one of the strengths of our society is to deny equal treatment to those least able to afford such inequity. All citizens of the Nation should be equally entitled to federally-financed welfare; people are residents of the United States first.

#### **FLOW OF MIGRANTS BETWEEN REGIONS, ANNUAL AVERAGE (THOUSANDS): 1960 TO 1965 AND 1955 TO 1960**



Source: U.S. Department of Commerce; Bureau of the Census. Series P-23, No. 16, January 1966. *Americans at Mid-Decade*.



## CONCLUSION

Present restrictive eligibility requirements for the determination of need for public assistance can be held responsible for much of the sense of isolation, the bitterness and despair of those who clearly need help but cannot get it for any of a dozen reasons. It is hardly surprising that many of the reasons for denial of assistance appear cruelly irrelevant to the "ineligible" hungry, sick, and homeless. They are equally shattering to those public welfare workers who must turn away people in need because they do not conform to a formula printed on a piece of paper.

Needy persons who do not now qualify under existing categories must be brought within the scope of federally-aided programs so that assistance is available to all who are in need. Categories must be eliminated. Of equal importance is the development of mechanisms whereby the people whose needs have been identified in Federal law are, in fact, found eligible for assistance in the States under these programs. State imposition of eligibility provisions narrower than those in the Federal law or restrictions not specifically mentioned or proscribed by Federal law must be prohibited.

Title XIX of the 1965 Social Security Act providing for comprehensive medical care for all medically needy by 1975 represents clear evidence that the Congress recognizes that less than comprehensive coverage significantly erodes both the intent and the actual benefits of legislation designed to assist people with low incomes.

Title V, part 3, of the 1962 Amendments to the Social Security Act requiring the States to make child welfare services available in all political subdivisions of the State by 1975 was a forerunner of the more recent precedent making legislation. Also, parts 1 and 2 of Title V, dealing with child health programs, were similarly amended in 1965. These recent provisions established significant precedents for needed reforms in public assistance and other public welfare laws.

**The Advisory Council on Public Welfare strongly urges legislation that will make possible comprehensive public assistance programs based upon the only relevant eligibility requirement—Need.**

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*" . . . We should not penalize certain categories of poor people, or suggest by different formula rates that one group of poor is more of a Federal concern than another group of poor."*

ANDREW J. SCHRODER, II  
*Admin. Vice President, Scott Paper Company*  
*Chairman, State Board*  
Pennsylvania Department of Public Welfare  
February 18, 1965

#### IV. A NEW PLAN FOR FINANCING PUBLIC WELFARE PROGRAMS

CURRENT FORMULAS for Federal financial participation provide an inadequate base for achieving the twin goals of adequate and comprehensive public welfare programs:

The formulas do not take sufficient account of State fiscal ability and effort to finance adequate and comprehensive programs.

The formulas provide more favored Federal financial support for some than for other groups of needy people. Children are the most disadvantaged.<sup>1</sup>

The formulas tend to skew program development. The varying Federal shares encourage States to exert considerable effort to obtain maximum Federal funds to the detriment of balanced program development.

The formulas are unnecessarily complex and thereby unnecessarily complicate both public understanding and program administration.

THEREFORE: *The Advisory Council on Public Welfare Recommends*

**A Uniform and Simple Plan for Federal-State Financial Sharing in Costs of All Public Welfare Programs: The Plan Should Provide for Equitable and Reasonable Fiscal Effort Among States and Should Recognize the Relative Fiscal Capacity of the Federal and State Governments to Finance Adequate and Comprehensive Programs**

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<sup>1</sup> Maximum amount subject to Federal sharing: for children and parents—\$32 (AFDC); for aged, blind, and disabled—\$75.

The Advisory Council's recommendation would result in an entirely new plan for meeting the costs of financial assistance, social services, staff development, and administration for the public assistance and child welfare programs. Under the Council's recommendation, the public assistance, child welfare, other social service costs, and currently unreimbursed public welfare functions in the States would be combined into a single, comprehensive public welfare formula. Further, the current roles of the Federal and State governments in defining and financing the programs would be reversed. Under current programs, each State sets its own program standards. In effect, each State also determines the total amount to be expended, since the amount of State and local funds contributed also controls the amount of Federal funds. Under the Council's proposal, the Federal Government would:

- Specify national standards for adequate and equitable financial assistance and social services and for program administration;
- Specify each State's share of the costs of the comprehensive program under the national standards. The State share would be expressed as a percent of total personal income payments in the State; the percents would vary among States as necessary to ensure reasonable and equitable fiscal effort among all States.
- Assume full financial responsibility for the difference in cost between the State share and the total cost of the comprehensive program in each State.

Thus, the proposal calls for essential and equivalent national assumption of financial responsibility for national standards. Consequently, equity of aid and services among all groups served by the comprehensive program would be assured by national standards backed by adequate financial support. In addition, the proposal would relate both Federal and State financial responsibility to total program costs, without differentiation among program segments or types of expenditures. Thus, the considerable amount of paperwork and effort currently necessary to determine and justify the various Federal shares would be eliminated. Instead, Federal and State audits and reviews of program costs and performance would be made against a more significant principle of accountability—to ensure adequate, equitable, and comprehensive achievement of program goals. The States in turn would be committed to administer the funds in such manner that the basic program would be equitable in all local jurisdictions.

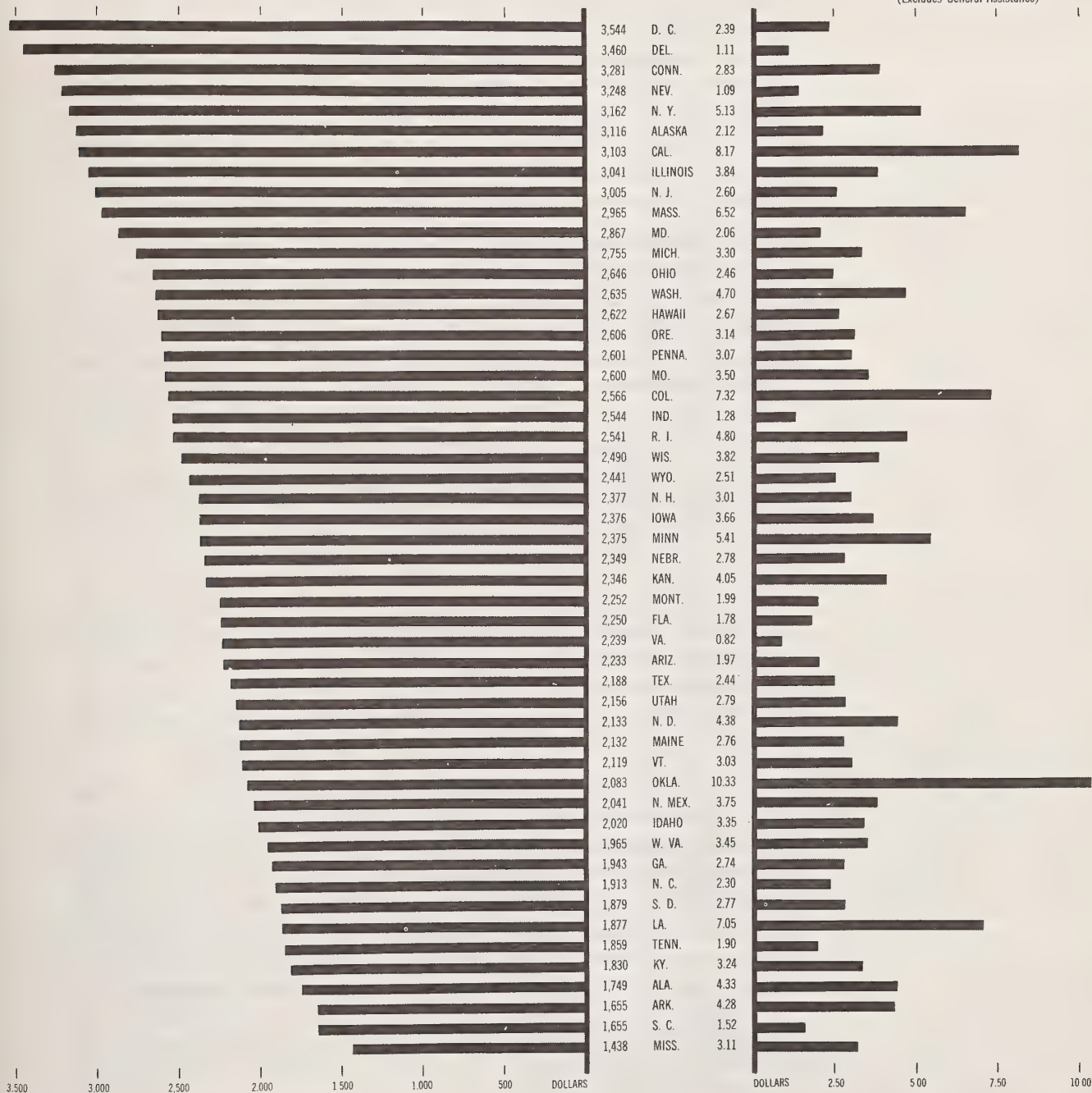
All costs of the public assistance programs subject to Federal financial participation are financed by an open end Federal appropriation; that is, the amounts of Federal funds due each State are determined accord-



# STATE FISCAL ABILITY AND FISCAL EFFORT FOR PUBLIC WELFARE

States Ranked by Average Per Capita Income, 1964

Expenditures for Assistance Payments from State and Local Funds,  
Fiscal Year 1965  
Per \$1,000 of Personal Income, 1964  
(Excludes General Assistance)



Source: U.S. Department of Health, Education, and Welfare; Welfare Administration. Bureau of Family Services.



ing to formulas based upon the amounts of State and local funds expended for the programs. Under the present grant-in-aid system, therefore, primary responsibility for determining the amount of total expenditures—Federal, State, and local—lies with the States. State decisions regarding both the scope and level of the State and local assistance programs are limited only by the broad limitations specified in the Social Security Act. Programs are defined and developed to fit the available amounts of State and local funds rather than any standard of need for assistance or of adequate programs to meet the need. With such primary reliance on varying State and local ability, willingness and effort to finance the programs, we have, in effect, fifty-four different public assistance systems.

That there are fifty-four varieties of public assistance systems would not be so serious if the resulting programs were adequate to meet need and equitable throughout all local jurisdictions. Almost without exception, however, public assistance recipients live in poverty even while they receive assistance. Not more than a half-dozen States provide assistance to raise needy people even to the brink of nonpoverty living levels.<sup>2</sup> Most States have assistance standards that are well below the poverty level. The inadequacy of the programs persists despite the fact that all States have substantially increased their expenditures over the years, and many States make considerable fiscal effort to finance their share of the programs. Some of the States where overall fiscal effort for public assistance is among the highest in the Nation still have the most inadequate programs.

So long as primary responsibility for defining and financing programs is left with the States, substantial increases in the percent of Federal financial participation are not a sufficient means to ensure adequate programs, as the history of the public assistance demonstrates. The Federal Government now pays about 59 percent of public assistance costs<sup>3</sup> for the Nation as a whole and more than two-thirds of the costs in 22 States.

Thus, the current Federal formulas do not provide a sufficient base for adequate assistance programs in all States. Neither do they provide an adequate base for equitable development of programs among all groups of needy people. The disadvantage for children implicit in lesser Federal financial support for them was written into the original Social Security Act and still persists in current provisions, especially in low Federal maximums on average AFDC payments. Following the lead of the Federal law, States have naturally tended to concentrate their expenditures and

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<sup>2</sup> As measured by the SSA poverty index, which presumably will reflect changes in basic requirements and costs of living.

<sup>3</sup> Exclusive of general assistance.

efforts in those programs that bring them the largest return in Federal money. As a result, while public assistance programs are rarely adequate for any needy group aided, the program likely to be most inadequate—often grossly inadequate—is Aid to Families with Dependent Children.

As the Federal law has been broadened to cover additional groups and services, the limited amount of State and local funds available in many States have had to be spread even more thinly among the groups served and the services provided. Where local matching funds are also involved, the additional problems of inequities in local fiscal effort and capacity among local jurisdictions has further complicated program development and accentuated unevenness in assistance and services.

Moreover, the various services and costs within each public welfare program are not supported at equal levels by the current Federal formulas. To meet needs adequately, public welfare programs must offer a considered balance of adequate financial assistance for basic maintenance; for medical care; social services to promote and encourage self-help, self-support, and strengthened family life. They must be available at appropriate levels in appropriate amounts for people in various income groups.

In addition, to be effective, assistance and services must be administered by a competent and efficient staff and organization. Yet present provisions for Federal financial support do not reflect the equal necessity of all the essentials of adequate, effective, and efficient program operation and development. Higher Federal shares are provided for smaller rather than for larger assistance payments; for costs of medical care and social services rather than for basic maintenance needs. Preferential Federal financial participation for some areas of program operation and development was deliberately written into the law to encourage development in program areas that once were neglected in many States.

Such preferential Federal treatment has its unfortunate results. Because in most States, State and local funds are not sufficient to support all the essential program elements adequately, preferential Federal provisions tend to skew program development toward those areas of highest Federal support to the detriment of other areas. The areas likely to be neglected are those related to providing adequate income for food, clothing, and shelter, without which no social services or medical care can be truly effective. To the extent such skewing occurs primarily for reasons related to the amount of Federal money to be obtained, the programs fail to meet needs and costs for all the various services and operations necessary to deal adequately, effectively, and efficiently with the needs of the people served by the programs.

Finally, the numerous complexities and differential formulas of the Federal financial provisions have complicated program administration and have resulted in elaborate systems of audits and accounting which were protested by virtually every State public welfare official who testified at the Council's hearings. At the present time, provisions for Federal financial participation include:

*Two different two-part formulas* for maintenance assistance with one set of specifications for the adult categories, a different set for AFDC. (a) For the first part of the average payment (\$37 for adults; \$18 per recipient of AFDC), the Federal share is a specified fraction (31/37ths for the adults, 5/6ths for AFDC). (b) For the second part of the average payment, the Federal share for all categories varies among States from 50 percent to 65 percent inversely with the State's per capita income. For the second part of the average payment, also, two maximums on average assistance payments are specified for OAA—one including vendor medical payments (\$90) the other excluding them (\$75). For the other adult categories, the maximum is also \$75 per recipient; for AFDC, it is \$32 per recipient.

*Two different Federal percentages* for social services and staff development: 75 percent in each State for certain prescribed and defined services and for staff development related to categories for which 75 percent social services are elected; 50 percent in each State for all other social services and staff development programs.

*50 percent in each State* for administrative costs.

*A provision in title XIX* under which States operating a program under this title may use the Federal medical assistance percentage to claim Federal participation in total expenditures for assistance payments to all eligible individuals under all titles without regard to the maximum average payments specified.

*A provision in title XIX* that specifies that for any State "losing" Federal money for vendor medical payments under title XIX, its Federal share shall be 105 percent of its share in the fiscal year 1965.

*A provision in the 1965 amendments* that, to receive the full amount of additional Federal funds, a State must continue to spend as much from State and local funds under the amendments as in a specified previous period.

A mere listing demonstrates that only people who work intimately and continuously with the provisions for Federal financial participation can fully understand their specific provisions and effects on Federal and State-local financing. And even the experts sometimes experience difficulties in maintaining their understanding of all the subtle and changing intricacies.



## CONCLUSION

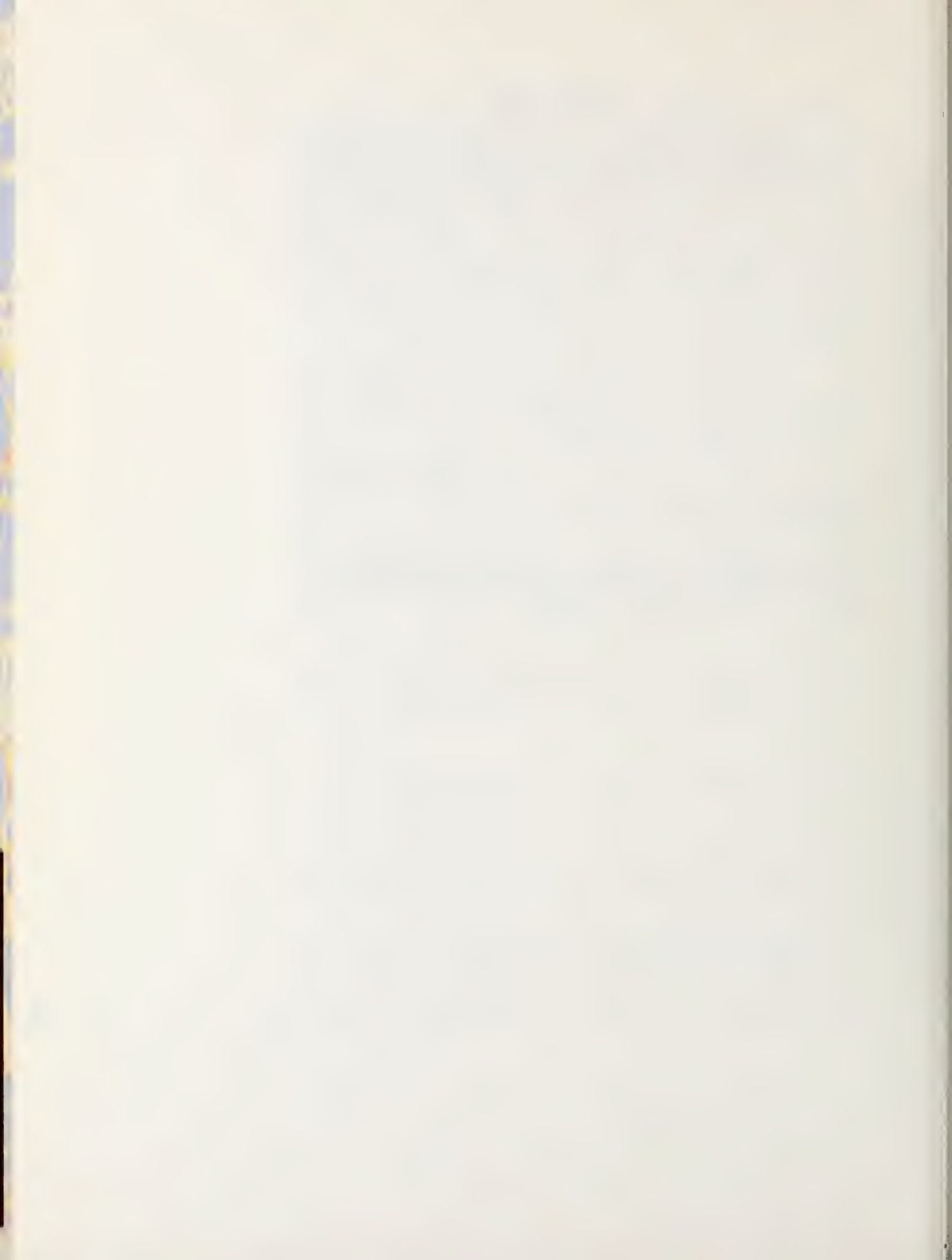
The high degree of reliance on State-local capacity, effort, and, to some extent, willingness to finance the public welfare program has been the major factor holding back development of adequate Nationwide programs. In addition, varying amounts of available Federal funds for different programs and different program areas have skewed program development toward those programs and program elements for which highest Federal support is offered. Among the needy groups, children have suffered most from lesser Federal financial support. Among program elements, maintenance assistance and basic administration have been least emphasized. The importance of a wide range of services has been tardily recognized.

Beyond the deleterious effects they have on program adequacy, equity, and balance, the numerous and different Federal provisions also add substantially to the maze of administrative complexities that pervade the operation of the public welfare program.

If the Nation is to have sound, adequate, comprehensive programs of public welfare, the base and mechanism for Federal financial support must be adequate, equitable, and simple to administer.

**It is the conviction of the Advisory Council that the adoption of a single uniform formula, which reverses the responsibilities of the Federal and State Governments for basic financial support and which recognizes varying State fiscal capacities and effort, is essential.**





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*"The Council is [also] concerned that the social security cash payments be made more adequate and, particularly, that the system take into account increases in prices and earnings levels that have occurred since the last time major revisions were made in the benefit provisions."*

Report of the  
Advisory Council on Social Security  
Washington, D.C., 1965

## **V. SOCIAL INSURANCE PROGRAMS AND PUBLIC WELFARE**

THE SOCIAL INSURANCE system is primarily designed to help meet income needs for employed wage earners when their earnings cease or are interrupted. While our present social insurance system is fragmented into various programs, such as Old Age, Survivors, Disability, and Health Insurance, Unemployment Insurance, and Workmen's Compensation, its effectiveness can be measured by the extent to which all wage earners and risks are covered and the adequacy of the benefits. Another measure of the success of these programs in preventing need is how many wage earners and their dependents must turn to public assistance to meet their basic needs when income is interrupted.

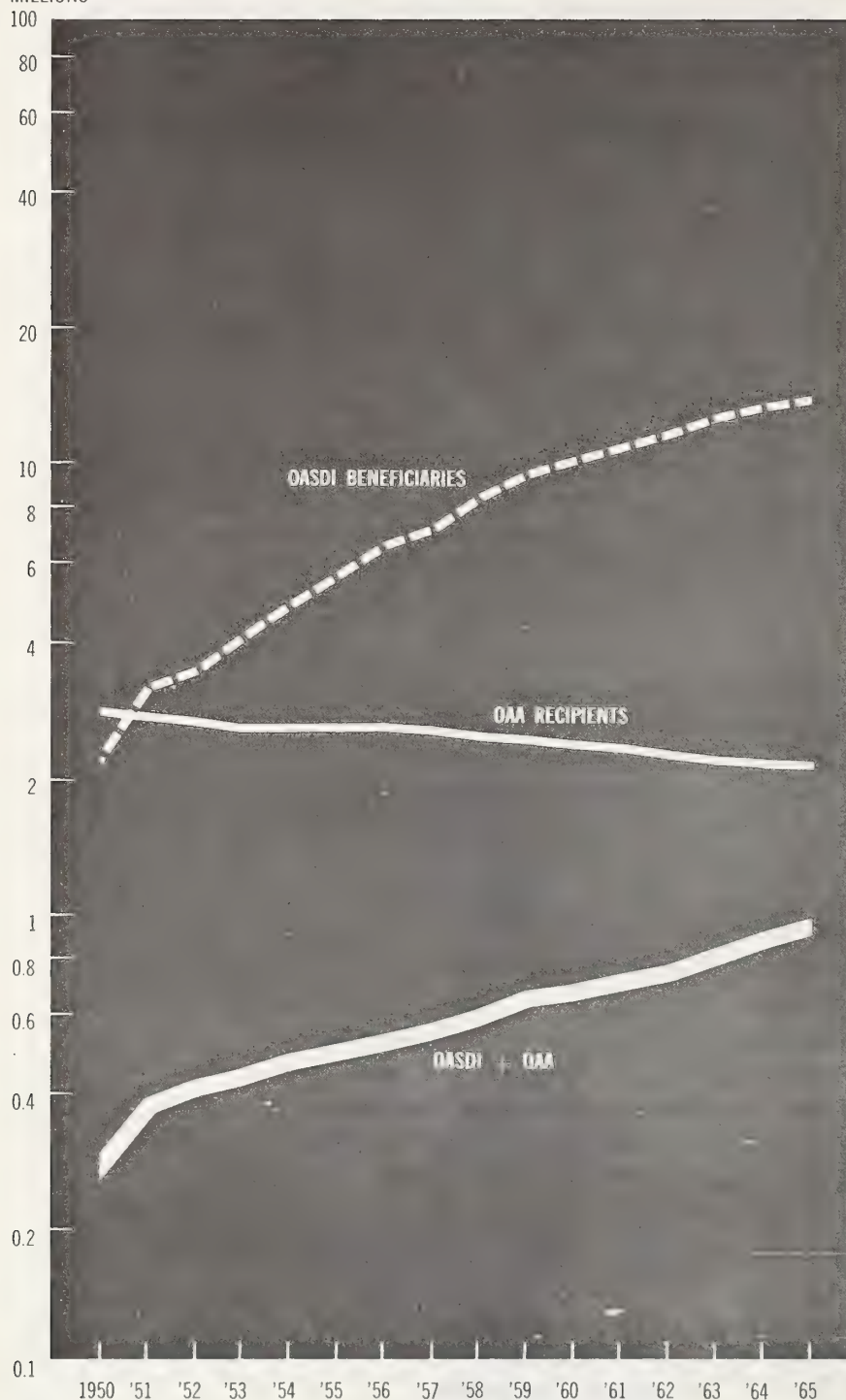
In view of the interrelationships of the social insurance programs and the public welfare program, the Advisory Council has considered the scope of coverage of the insurance system and the adequacy of the benefits provided.

Clearly the social insurance programs need to realize more adequately their primary function of underpinning income.

THEREFORE: *The Advisory Council on Public Welfare Recommends*

**Prompt Extension of Coverage and Liberalization of Benefits  
Under the Social Insurance Programs**

MILLIONS



**TOTAL OASDI  
BENEFICIARIES  
AGED 65 AND OVER,  
OAA RECIPIENTS,  
AND NUMBERS  
RECEIVING  
PUBLIC ASSISTANCE  
PAYMENTS  
AND OASDI BENEFITS,  
SPECIFIED MONTHS IN  
1950 TO 1964**

Source: U.S. Department of Health,  
Education, and Welfare; Welfare  
Administration. Bureau of Family  
Services.

The Nation has long accepted social insurance as the primary source of economic security for workers and their dependents when earnings are interrupted by circumstances beyond their control.

The effect which social insurance programs can have in reducing public assistance is illustrated by the steady rise in the number of aged persons receiving benefits under OASDHI and the equally steady decline in the recipients of Old Age Assistance. The provision of survivors benefits to widows and orphaned children and of benefits to totally disabled individuals and their dependents has also greatly reduced the number of potentially destitute persons. Despite these advances, at the close of 1965 approximately 1,200,000 recipients in four public assistance programs<sup>1</sup> were concurrently receiving OASDHI benefits which were insufficient to meet their basic minimum needs.

## **SCOPE OF COVERAGE**

The cash benefits of the Federal social insurance programs now have achieved almost universal coverage, reaching more than 90 percent of the population. On the other hand, many workers are not covered by unemployment insurance. One worker out of every four (15 million) is still not covered by unemployment insurance. State laws in 27 States (including Puerto Rico) follow the Federal Unemployment Tax Act by limiting the program to employers of four or more persons. Nearly all States also follow the Federal Act in excluding agricultural workers, domestic employees, public employees, and employees of nonprofit organizations, though a few jurisdictions cover some of these groups.

In addition there is a trend toward restrictive policies and practices among the States to exclude persons from the unemployment insurance program for essentially technical reasons but who are unemployed and in need of income.

The adequacy of coverage can also be measured by the extent to which the social insurance programs cover risks to which a wage earner may be subject. For example, until the enactment of the 1965 amendments, an insured disability was narrowly defined so that it included only disabilities that were expected to result in death or were of long and indefinite duration. The 1965 amendments broadened coverage by providing disability insurance benefits for a worker who has been totally disabled for at least 6 calendar months even though it is expected that he may recover in the foreseeable future. The individual, however, must still by reason of his impairment be unable "to engage in any substantial gainful activity."

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<sup>1</sup> Old Age Assistance, Medical Assistance for the Aged, Aid to the Permanently and Totally Disabled, and Aid to the Blind.



Temporary disability is still not included within the scope of the Federal insurance program, and only four States—California, New Jersey, New York, and Rhode Island—have laws that provide protection for temporary disability.

In 1965 legislation providing hospital insurance benefits for the aged and supplementary medical insurance benefits for the aged was incorporated into the Social Security system.

## **BENEFIT LEVELS**

The benefits provided to eligible persons under OASDHI are not sufficient to meet the needs of many beneficiaries, as reflected by the number who receive additional help through public assistance.

**The Council Believes That Unless Social Insurance Benefits Are Substantially Increased, a Much Larger Proportion of Social Insurance Beneficiaries Will Require Public Assistance To Meet Their Basic Needs.**

The minimum social security benefit is now only \$44 a month. (Recently an amendment was enacted which provides a benefit of \$35 a month to certain otherwise ineligible persons 72 years of age and older.) Obviously, unless persons receiving minimum benefits have supplementary income (an unlikely assumption for the larger number), such persons must rely upon public assistance for help in meeting their basic needs.

While it is not the function of this Advisory Council to make recommendations as to the specifics of a benefit formula for OASDHI, it is germane to any consideration of public welfare to propose that the social insurance system establish reasonable minimums for workers regularly under the system and provide higher percentages of wage losses to low paid workers. This does not imply that a social insurance system should not provide adequate benefits in relation to past wages for higher paid workers. To the extent that benefits are more heavily weighted in favor of lower paid workers through adjustments in the formula and increases in the minimum benefits, the system of financing must be reexamined. Consideration must be given to a substantial contribution from general revenues. Furthermore, such adequate benefit levels need to be kept current in relation to rising prices and real wages.

In the area of unemployment compensation, maximums on the amount of weekly benefits in many States do not permit most workers to achieve a minimum of 50 percent of past wages when unemployed. In more than two-thirds of the States, the basic maximum weekly benefit amount

continues to be less than half of the State's average weekly wage. In 17 States, the maximum is less than 40 percent of the State's average wage. The lower the weekly maximum, the greater the percentage of individuals whose amount of benefits fails to meet at least 50 percent of wages.

Consideration must also be given to the length of time for which unemployment benefits are paid. The States are permitted under Federal law to set the limit on the number of weeks of benefits to be paid as well as to determine the scale of benefits. The maximum number of weeks payable ranges from 22 weeks in one State to 39 weeks in another.

## **PUBLIC WELFARE AND SOCIAL INSURANCE**

There will always be individuals and families who will not be afforded protection under social insurance. One of the great strengths of the public assistance program is its potential to recognize full need, unusual need, and special circumstances.

The responsibilities of the public welfare agencies, as complementary to social insurance, will grow with the increasing need for social services. The public welfare agencies, in providing counseling, guidance, referral, and other social services for special groups in the community will increasingly be serving the needs of social insurance beneficiaries. Thus, the coordinate relationship between social insurance and public welfare should continue, although hopefully as the recommendations of this Advisory Council are enacted into law, these relationships will shift. The shift for public welfare will be toward less supplementation of inadequate social insurance income through public assistance and a greatly strengthened role in providing essential social services.

## **CONCLUSION**

Implementation of the Council's recommendation to extend social insurance coverage and raise benefit levels would contribute significantly to the economic stability of an increasing number of Americans.

Such action would reduce the necessity for public assistance to provide supplementary income maintenance for many former wage earners and their dependents as well as place responsibility for basic income maintenance in the social insurance programs where it rightfully belongs.

If social insurance benefits are made adequate to help meet ordinary living costs during periods of income cessation or interruption, then the public welfare program will be better able to fulfill its primary functions:

meeting special and unusual needs of wage earners and their dependents, providing for the income maintenance needs of individuals and families who are not covered by social insurance, extending medical assistance, and providing a broad range of social services.

**Further, the Advisory Council on Public Welfare is of the opinion that the adequacy of social insurance benefits should not remain static but be kept in proper relationship to living costs and wage levels.**

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*“Public welfare is the channel through which the responsible level of government assures to individuals and families the means of meeting those social and economic needs it recognizes as basic, but for which other provisions have proved inadequate.”*

Position Statement  
National Social Welfare Assembly  
December 1961

## **VI. COMPREHENSIVE SOCIAL WELFARE SERVICES**

A COMPREHENSIVE PROGRAM of social services, available to all citizens as a matter of right, regardless of financial status, is essential to an effective public welfare program.

Continuing changes in modern life have sharply reduced the capacity of the family and the neighborhood to aid its members in dealing with a variety of social and family problems. The elderly, the sick and disabled, newcomers to urban life, youth, men and women seeking to adapt to a changed market for their labor, members of minority groups, and, in fact, most people are confronted at times with problems requiring a new type of community service. These problems are not restricted to persons of low income or of little education.

Financial assistance, while of primary importance in many instances, is but one answer to the variety of problems spawned by the rapidly changing patterns of modern society. A basic guarantee of social services to help individuals and families resolve or prevent problems must be regarded as equally essential in a responsive and modern public welfare program.

Ways must be found to bring the comprehensive social services that modern living requires to all who need them, when and where they are needed.

THEREFORE: *The Advisory Council on Public Welfare Recommends  
That*

**Social Services Through Public Welfare Programs be  
Strengthened and Extended and be Readily Accessible as  
a Matter of Right at All Times to All Who Need Them.**



**The Advisory Council considers it urgent that public welfare programs be structured to provide ever more effective social services, medical assistance, and income maintenance in readily accessible local centers, properly staffed and organized. Increasingly, they may become associated with a complex of special services.**

Community and family services must be considered part of a full range of services offered by both voluntary and public agencies. The Advisory Council recognizes that voluntary agencies perform an essential role in contributing to the total range of needed services, but this report will deal only with public social services.

The anxiety and alarm engendered by family breakup, juvenile delinquency, alienation, mental illness, and other evidences of social maladjustment, are not limited to a single class, one economic level, any particular educational level, or any racial or cultural group. These are symptoms indicative of the stresses of modern life which put heavy pressure on people everywhere. They emphasize the need for an improved social environment better adapted to the needs of present and future generations. For hard-pressed families and children, specific social services are needed which can support, supplement, strengthen, and if need be, substitute for the traditional parent-child relationship.

The functions of social services become increasingly important as the variety of community services of many types confronts the individual with a complex maze of potential benefits and services. Increasingly, people need advice and counsel in finding specific answers for their problems. Many people are not familiar with the machinery of government and require the skilled guidance of the public social agency in obtaining the help that is, or can be made, available to them.

The recent Medicare legislation offers an excellent example. All older people now have entitlement to hospital and medical care representing a major change for the better in their total situation. But social insurance is a payment program, not a service program. Who is going to assist the confused old person to find the care he needs, negotiate the shift from hospital to nursing home, or his own home, organize the kind of home care he needs, and assist him, when necessary, in meeting the charges not covered by his insurance? This is essentially a social service function.

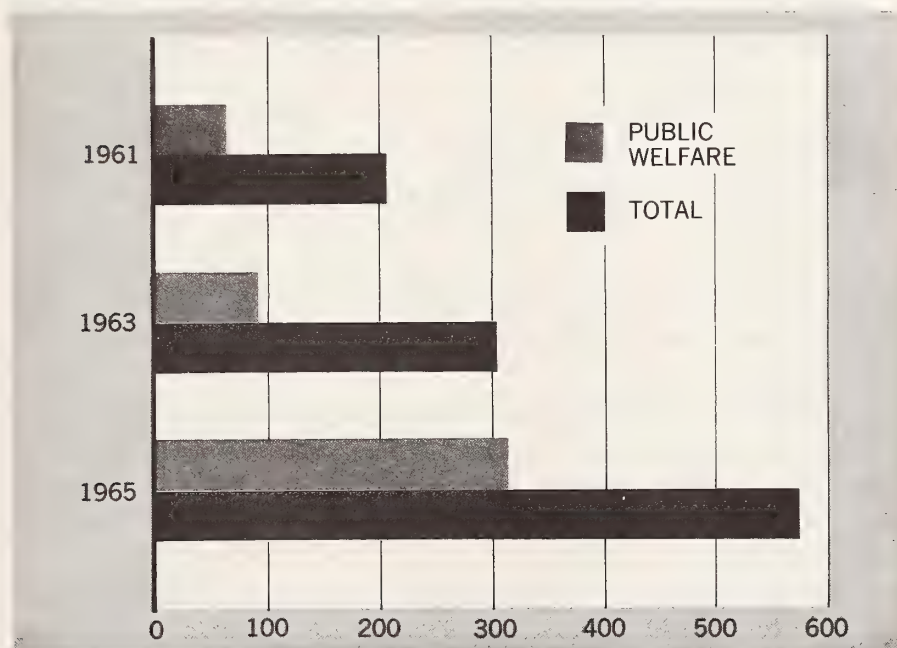
But this is only one example of the many situations in which social services perform a vital function. People confronted with an emergency, isolated from the community, discouraged, overwhelmed by the confusions and demands of a new environment, people who see their jobs disappearing, their debts mounting, their family problems sharpening into seemingly insoluble conflict, the demands for new adjustment outrunning their experience

to the point of panic—all need a source of support, encouragement, guidance, and direct help.

Some problems require the aid of the most experienced and competent social workers. Others may call for specialized help which requires professional organization but can be given by persons of a particular, but nonprofessional skill under adequate supervision. For example, the extension of services to the homebound elderly person of limited strength and mobility requires organization but can be effectively rendered by homemakers trained for that particular function. Still others can be most effectively provided through working with people in groups. The range of personnel required of the modernized public welfare agency is steadily expanding to encompass the neighborhood worker, persons with education at all levels, and a variety of professional disciplines.

The social service functions of public welfare, while less conspicuous up to this point in time than those of assistance, stand on the frontier of American social development. Social services, strengthened by decades of experience of voluntary and public agencies and supported by increased Federal financing, can and must play a far more significant role in creating

#### **HOMEMAKER PROGRAMS IN THE UNITED STATES, AND PUBLIC WELFARE HOMEMAKER PROGRAMS FOR 1961, 1963, 1965**



Source: U.S. Department of Health, Education, and Welfare; Welfare Administration. Bureau of Family Services.

stronger family structures, preventing dependency, and lessening the effects of social stress. The increased availability of such services is only a partial goal toward which to work. Greater effort is needed to create opportunities and motivation for families and individuals to make use of the available social services. Public welfare agencies must be encouraged to innovate and experiment in ways to bring the people who need social services and the services to a common meeting ground.

### WHAT ARE THE SERVICES REQUIRED FOR TODAY'S LIVING?

The available social services must consist of a broad range of different services directed to the special needs of individuals and families and groups of individuals and families. Within the community, and in need of such services, are a wide variety of people with various kinds and degrees of problems and handicaps. Some of these can best be met through the provision of social services by the qualified staff of the public welfare agency. The problems of *children* especially demand numerous skills of a high order to reach the child where he is. Many of the children are within their own families. Protective services for neglected and abused children are urgently needed as well as foster care, day care, and institutional services.

*The aged* are in need of specialized services to meet the problems they often face simultaneously: infirmity, isolation, low income. The aged, more than others in the community, are often isolated and out of touch with family and community life. Physical and mental deterioration, as well as despair, can be minimized by the development of programs and services for the aged through public welfare agencies.

Because *juvenile delinquency* has such diverse causes and involves so many community institutions, services in various settings requiring skills of many kinds are needed to prevent and to treat the problem. A variety of community services, under various auspices, designed to protect both the individual and community from the effects of juvenile delinquency are clearly needed.

But most *youth* fortunately are not actual or potential delinquents. The great majority have been too long neglected as they reach out for understanding, counseling, guidance with all the changes and decisions and experiences that are the warp and woof of growing from childhood into responsible adulthood.

Increasingly, it is recognized that *family planning services* have an essential role in public welfare services. Family planning services should be available to all in the community who desire them. For some people, financial assistance may be needed to obtain services readily available to others.



For other persons, information about available services may be needed and for many, the public welfare agency can offer beneficial counseling for individuals and families with problems in family life, including family planning.

Many people come to public welfare agencies whose problems stem from their lack of familiarity with legal procedures or who may be denied the protections of the law because they are not able to pay the costs of *legal services*. As our society becomes increasingly complex and impersonal, the legal rights of individuals can easily be overlooked and often the victims do not know that the law can protect them. Legal services are a logical and necessary part of the structure of services offered by public welfare agencies. Such services can be paid for when rendered by practicing lawyers or legal resources can be added to the staff of the agency.

*Medical services* are as essential services offered by public welfare as are income maintenance and social services. Medical services must be available to all adults and children not able to pay for them. Increasingly, medical services are provided for as part of social insurance programs for the aged, and also as part of the structure of benefits under employer-employee arrangements. But most arrangements and resources often contain gaps that result in the withholding of the services. Money may be needed for various minimum fees; full payment of the reasonable charges is needed in large numbers of cases. Help in filling these and other gaps in medical services programs is essential, along with clear information as to where, when, and how to obtain the services.

Clearly this short listing of certain services required for today's living is only partial. To attempt to detail every specific service is not only unnecessary to emphasize the significance of this area of public welfare responsibility but also hazardous because the scope of such services widens as our knowledge and our skills expand.

The responsibility of public welfare for the provision of social services is well established. Various recent actions taken administratively and by Federal legislation have given impetus to the goals of social welfare administrators to administer the programs constructively as a broad-gaged helping service for people.

The legislation enacted by the Congress in 1962 to encourage public welfare agencies in providing social services is a landmark in the development of public welfare. There is no doubt that these amendments have directed the focus of public welfare programs throughout the Nation toward the provision of social services more than any other single action in the history of public concern for the needy and the troubled. The enactment in 1965 of title XIX of the Social Security Act, offering grants to the



States for medical assistance, further underlines the need and responsibility of public welfare agencies for the provision of adequate social services. Medical services to be truly available and useful to many individuals require the extension of social services within the total program.

Child welfare services, as an integral component of public welfare, have similarly benefited from the recent legislation, and progress is being made toward the 1975 goal of statewide services set in the 1962 amendments to the Social Security Act. Medical services are becoming increasingly more widespread, at an accelerated rate, as a result of the 1965 Federal legislation, and are reaching far more people in need of such services.

### **THE JOB STILL TO BE DONE, NATIONWIDE AND COMMUNITYWIDE**

The Advisory Council is aware that sober, objective analysis of the progress to date leads to the inescapable conclusion that the goals of the 1962 amendments have not been reached—and the enlarged goals of this report are yet to be blue-printed. For many recipients of public assistance, for the even larger group within the poverty sector not receiving public assistance, and for many children, and young people, and families, and aged in need of aid, social services remain more theoretical than real.

The reasons for this are many: The difficulties of States and other jurisdictions in raising their share of the needed money, even under the liberal financing provisions in the 1962 legislation; the continued problems of recruiting and retaining qualified staff; the immersion of workers in the details and complexities of the administration of the present programs; the complexities of Federal and State legislation—all have been obstacles to the realization of the goals set in 1962.

Although nearly all States have taken steps to implement the 1962 legislation, their plans and programs, except for child welfare services, are limited in the main to those persons currently receiving financial assistance. Little or no services are being offered to persons who formerly received aid or who are potentially in need of assistance. Thus, what the Congress intended has only partially been achieved. Extensive additional actions are needed to assure the provision of essential services to all individuals, families, and children, including those whose problems are not directly related to income status.

This latter point made time and again in the regional hearings of the Advisory Council in a variety of ways, was clearly stated by Paul K. Reed, Chairman, Illinois Association of Family Service Agencies:

*"Equally important is the development of public social services to be available not only to those in need of financial assistance but also to all persons in all communities throughout the Nation."*

The financing of services for children and youth has always been complicated by the heavy demands made upon States for money to provide income maintenance and medical care for the large number of dependent adults. The current financing arrangement has discriminated against Aid to Families with Dependent Children and other services for children and youth. A major advantage of the recommendations of the Council for the inclusion of services for children and youth, within the comprehensive program of social guarantees, is the greater freedom it would give the States in organizing the interrelationships of its total public welfare program and allocating resources where most needed rather than where best financed as is so often the present case.

With the over-all Federal share inclusive of programs providing both services and financial assistance, the States would be freed from the present complexities of fiscal allocation between maintenance and related social services programs, and services for children and youth under child welfare services. Moreover, to the Nation as a whole, the supportive aspects of services for children, youth, and their parents as a means of preventing the family breakdown, which today brings so many children to dependency upon public assistance, is logical in terms both of social policy and long-run economy.

To meet the challenge of the job still to be done will require not only substantial improvement in all of the areas detailed above but also greatly increased attention to total community organization. Public welfare does not exist apart. It is an integral segment of the entire organizational pattern of the total community. In the public welfare programs most effectively serving their communities this is clearly visible. For the majority, however, special, intensive added effort is essential.

The public welfare agency has a major role to play and a major responsibility in more effective community organization as a basis for providing comprehensive social welfare services. The implications for staff with special skills in this area, for greatly accelerated development of community service centers within reach of all who need them, and reaching out to those who are unaware that appropriate help is available are major ingredients of the total public welfare job recognized by this Council. At the same time, under appropriate arrangements, responsive to the fact that crises may arise for individuals or families at any hour of the day or night or any day of the week, emergency services must be accessible at all times.

## PROBLEMS ARE INTERRELATED

There is a point of view based on the premise that the function of providing money payments and that of providing social services may conflict so that it is advisable to have a complete separation of these functions in separate agencies. This Advisory Council believes, however, that problems of people cannot be neatly categorized. For those persons who come to the public welfare agency for money, it is difficult and unwise to attempt a complete division of function between the provision of services and the provision of granting of money, quite apart from the question of duplicating mechanisms.

In general individuals have a complexity of problems in which the very determination of eligibility for money may involve the provision of a social service or the identification of a variety of needs for service. For example, determining the eligibility of an individual whose work potential is poor for a training program is a social service intimately tied in with a money payment. Or, for the mother of young children who applies for financial help because the family has been deserted, much more is involved in helping her than a mere estimate of her budgetary requirements.

Poverty and dependence are usually the ultimate results of a variety of social or emotional causes. Furthermore, degree of economic or other need often changes quickly in our expanding labor market and mobile population.

At the same time there is growing recognition of the necessity to realign public social services to serve more effectively the needs of our society. The emphasis is shifting to more public social services available to the financially self-sufficient who have social problems and need help which ranges from professional counseling in dealing with a failing marriage, a mental or emotional illness, a delinquent child or a problem of alcoholism or drug addiction to need for the kind of help that can be given by trained homemakers or other types of auxiliary staff. For millions of troubled people today, there must be a place to turn for the variety of human services, including advice and information, that welfare agencies traditionally provide but that, in our public agencies, have tended to be limited to people who have financial problems as well.

Other people are financially dependent, particularly the aged, the ill and handicapped, but have the support of family or community resources. Thus they can manage independently if a sufficient income to pay for their living expenses or medical care or both is provided.

Then there are those who require both social services and more adequate incomes, provided at appropriate levels.



As presently organized, our public social service programs all too often are not properly staffed and organized to serve these clearly differentiated needs to individuals of all ages and to families. Hence, it is urgent to define more clearly how available programs can be structured to provide ever more effective social services, medical assistance, and income maintenance in readily accessible centers, properly organized to do so.

As the social insurances improve, the numbers who require income maintenance in whole or supplementary to other benefits will decrease. But the crux of the problem of basic social guarantees dealt with by this Advisory Council is availability of the gamut of services under soundly conceived and organized public welfare administrative structures, meeting the particular need or needs of the individual at the right time in the right way. It is fortunate that the public welfare agency is already available in every local jurisdiction and thus provides the framework for dealing effectively with the interrelated human problems of contemporary society.

## **IMPROVEMENT AND EXTENSION OF CHILD WELFARE AND YOUTH SERVICES**

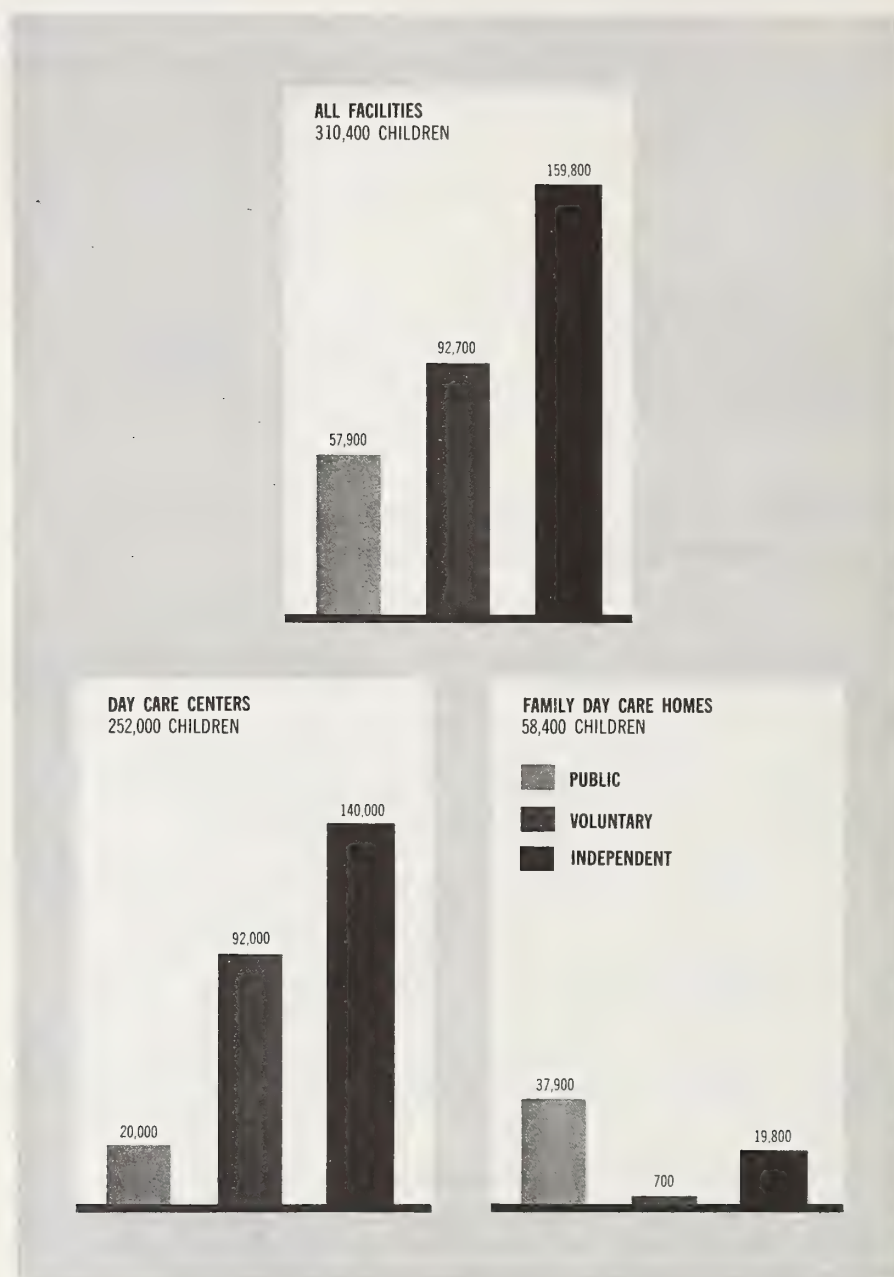
The vitality of a society can be measured by the way it treats the children on whom its own future depends. Adults who in childhood have failed to receive the physical and emotional nourishment necessary for their own best development become, in their turn, inadequate parents, poor citizens, and economic misfits, incapable of the adaptations required by our technological society. Somewhere, this cycle must be broken, and child welfare and youth services are essential to this preventive goal.

Children and youth services are predicated on the assumption that the best answer to a child's needs is a strong, warm, and supportive family. But the fragmentation, complexity, mobility, and subsequent depersonalization of many aspects of modern life put heavy pressures on the job of being a parent. The majority of today's young parents have neither the help and support of a large nearby family group, nor the array of supportive social services which might relieve their burdens in rearing young children, in building a strong family unit.

The existing program of child welfare services, authorized by title V of the Social Security Act and State legislative enactments, has pioneered in the provision of services for children and youth but its coverage is so spotty, both geographically and in scope of benefits, that it offers little guarantee of protection to a large number of the Nation's children. Some of the most vulnerable, especially children in minority groups who need it most, have had

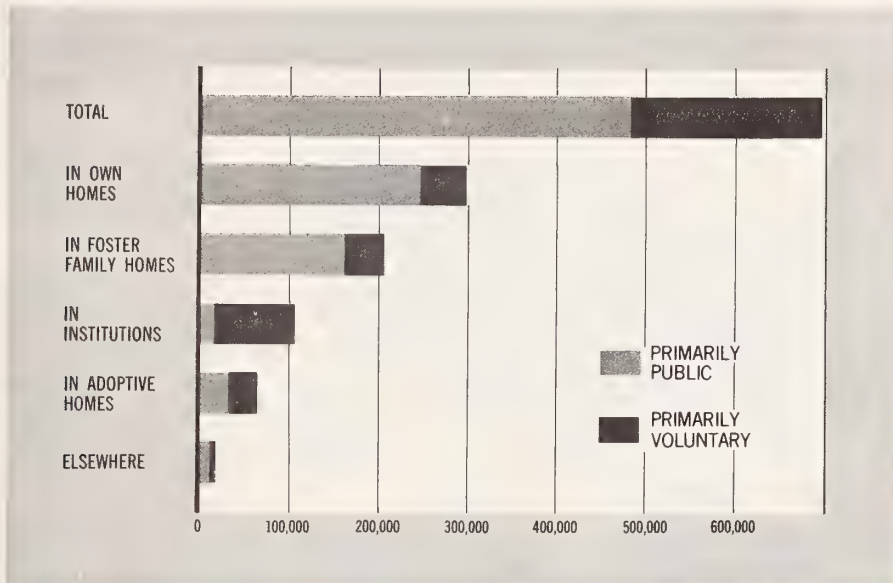


# **AGGREGATE CAPACITY OF LICENSED DAY CARE FACILITIES IN THE UNITED STATES, SEPTEMBER 30, 1965**



Source: U.S. Department of Health, Education, and Welfare; Welfare Administration. Children's Bureau; Child Welfare Studies Branch.

**NUMBER OF CHILDREN SERVED BY PUBLIC AND VOLUNTARY  
CHILD WELFARE AGENCIES AND INSTITUTIONS,  
MARCH 31, 1965**



Source: U.S. Department of Health, Education, and Welfare; Welfare Administration. Children's Bureau.

the least protection. Adapting to these needs and deprivations as best they can, today's neglected children become tomorrow's social problems.

This is a national problem and a national responsibility.

**For all these reasons, the Advisory Council on Public Welfare recognizes that child welfare services constitute a major component in the proposed comprehensive program of social guarantees.**

The Council is aware, however, that it is not possible to assure the availability of a full range of services in all political subdivisions immediately. Therefore, it is of the opinion that the Federal agency should identify the services which must be made available to all eligible children immediately and those to be included on a progressively more inclusive basis within the comprehensive program and within the same pattern of financing. A program of social guarantees implies a right to the available services.

**The Advisory Council on Public Welfare believes that child welfare and youth services, as well as other services of public welfare agencies, should be available as a right, subject to enforcement in the courts.**

The gap between the goals of present services for children and youth and attainment is very great. Child welfare services are not available to all the children who need them, are not statewide in many States, and the variations among quality and types of services offered among the States are wide. For example, while an estimated 2.7 million children need day care services, total public and voluntary approved facilities serve only 310,000 children. The reasons for the failure to achieve the services needed by children and youth are similar to the reasons other services, which should be a part of a community service program, are lacking.

The most crucial of these reasons is financing. The recommendations of the Council on the financing of public welfare programs will, if enacted, provide the level of financing required.<sup>1</sup>

In addition to bringing programs for children and youth into parity with other public welfare programs, the proposed Federal matching formula would make possible the establishment of mandatory standards relating to the essential components and quality of services for children and youth. To benefit from the greater Federal financial support which would be available to them, State services for children and youth would have to meet these standards.

Presently, responsibility for components and standards lies primarily with the States. As a result the children of prosperous States have better and more comprehensive services than the children of poorer States, and no State has services for children and youth that meet optimum standards. Since the inadequacies of present programs are of grave concern to professionals and interested citizens alike, as often expressed in the regional meetings of the Advisory Council—there is every reason to believe that all States would welcome an opportunity to extend and improve their services for children and youth. These services should include provision of protective and social services for children in vulnerable situations such as foster care placement in homes and institutions at reasonable rates of reimbursement; adoptive services; services to unmarried mothers and their children; homemaker services; services related to the licensing of other child welfare programs; day care; provisions for specialized institutional care; probation and school social services (where not otherwise available); and special programs for young people.

## **WORK AND TRAINING PROGRAM**

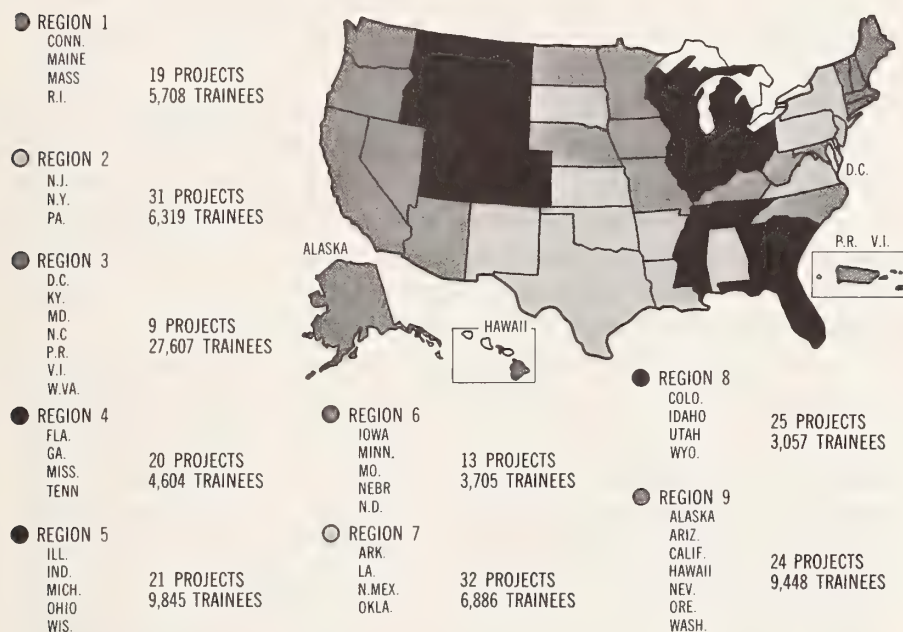
Opportunity for constructive work and training was authorized under the Public Welfare Amendments of 1962 along with other services

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<sup>1</sup> See Chapter IV.

directed toward helping parents or relatives attain or retain capability for the maximum self support consistent with the maintenance of continuing parental care and protection.<sup>2</sup>

### NUMBER OF OPERATING PROJECTS AND NUMBER OF TRAINEES IN THE TITLE V PROGRAM BY REGION AND JURISDICTION AS OF MAY 12, 1966



Source: U.S. Department of Health, Education, and Welfare; Welfare Administration. Bureau of Family Services.

One of the major reasons for placing this responsibility with public welfare was that public assistance recipients had been consistently bypassed by other training and placement programs and clearly needed a well rounded program of special help. Although required by law to be currently registered for jobs with the employment service, few unemployed parents receiving assistance were either placed in employment or selected for classes under programs of other governmental agencies. On the other hand, cases eligible under the 1962 amendments in the Aid to Families with Dependent Children program where need was due to unemployment of the breadwinner have

<sup>2</sup> The Council's Recommendation for an interim work and training proposal appears in Chapter XIII.



been closed on the average after only 9 months of assistance, largely due to work or training program components.

The Economic Opportunity Act of 1964 extended the provision by public welfare agencies of constructive work experience and training to unemployed parents and other needy persons. Emphasis has been focused on the hard core, chronically unemployed segment of our population, most subject to economic, cultural, and educational deprivation. Under this program results have also been encouraging. As an example, 68 percent of a recent sample of participants who went into employment after individually planned training were found to be still working 3 months after leaving the projects.

The basic ingredient added by public welfare agencies administering work-training programs is the close coordination of work experience and training with supportive social services, income maintenance, and medical care. The emphasis is on a family-centered approach, dealing not just with an individual but helping the entire family to enter the mainstream of community life. Of the thousands of persons already trained and engaged in gainful employment each has an average of three dependents.

Public welfare should continue to carry responsibility for providing such a coordinated program of services to public assistance recipients and others in similar circumstances, many of whom may still require income maintenance and services even after receiving work experience and training because of fluctuations in the labor market, personal or family health problems, lack of adequate child care, or because they are so seriously disadvantaged that they cannot be employed in competitive jobs.

**THEREFORE: *The Advisory Council on Public Welfare Recommends That***

**The Present Work Training Programs Be Strengthened and Become Permanent Parts of the Public Welfare Structure**

## **JUVENILE DELINQUENCY SERVICES**

The Welfare Administration's programs for the prevention, control, and treatment of juvenile delinquency and youth development are operated primarily through two of its constituent units—the Office of Juvenile Delinquency and Youth Development and the Children's Bureau.

The Children's Bureau juvenile delinquency program confines itself to youth of an age that is within the jurisdiction of the juvenile court. The Office of Juvenile Delinquency was created in 1961 by the Juvenile Delinquency and Youth Offenses Control Act, "to provide Federal assistance

to projects which will demonstrate or develop techniques and practices leading to a solution of the Nation's juvenile delinquency control problems."

The Advisory Council recognizes the volume and quality of the services being rendered to the States and localities by both the Children's Bureau and the Office of Juvenile Delinquency and Youth Development. Among these services are surveys, research, reporting, demonstration projects, training activities, and consultation. Each area needs not only to be continued but also to be extended and strengthened.

The facts of the multiplicity of elements in the prevention, control, and treatment of juvenile delinquency as well as the many disparate, but related social institutions affecting and affected by delinquency and youth crime have gained wide recognition. It is now generally conceded that the multiple problems grouped under the general heading of juvenile delinquency are reflected in the numerous organizations and agencies at the national, State, and local levels; public, voluntary, executive, and judicial.

While there is general agreement on the multiple causes of juvenile delinquency and the need for coordinated, comprehensive programs—Federal, State, and local programs remain neither coordinated nor comprehensive. Viewed from an organizational and administrative perspective, State and local programs for delinquent youth present a pattern quite dissimilar from public welfare services for families and children.

**It is the Council's opinion that a carefully administered program of grants to the States for the control and treatment of juvenile delinquency will bring some order to the present array of agencies and functions in the various units of local and State government and, along with continuation of the present approaches, will help to promote the actual availability of the needed services.**

At the present time, the delivery of needed services is often handicapped by the shifting responsibilities of the various judicial, administrative, voluntary, and public agencies in the field. Responsibility for a course of action, care, and treatment has too little continuity or coordination and hence efforts for care and rehabilitation are frustrated. As a result, many youth do not receive the proper care and treatment at the precise time when it is most needed and would be the most effective.

**THEREFORE:** *The Advisory Council on Public Welfare Recommends That*

**One Consolidated Program Within the Welfare Administration for the Prevention, Treatment, and Control of Juvenile Delinquency be Established.**

## MEDICAL AND DENTAL CARE SERVICES

Medical services are an essential element in a comprehensive service program. Medical attention must be promptly and effectively provided. Lack of it can result in deterioration for the individual and far greater ultimate cost to the community. In 1965 the Congress established the framework for broad programs of health insurance for the aged, medical assistance, and expanded child health care. These programs will carry the Nation markedly forward toward the goal of medical care for all without means to purchase needed care. The 1965 child health provisions, together with the earlier child health and mental retardation program, should greatly advance the level of care available for children, especially those from low income homes.

The relationship of the health of its children to the strength and productivity of the Nation needs little elaboration. The health of the adult population is determined, to a great degree, by the quality, adequacy, and scope of the health services available to that population when it was young. A significant index of the general health status can be found in the health of children.

The interaction of poverty and health was sharply revealed in a special report to President Johnson in 1964 on the health of school age children in the United States.<sup>3</sup> Some points from the report, prepared by the Children's Bureau of the Welfare Administration, include:

- Children in families with less than \$2,000 income see a physician only half as frequently as those in families with income of more than \$7,000.
- Children in families with incomes under \$2,000, when admitted for hospital care, require twice as long a period of care as children in families making \$7,000 and over.
- Paralysis and orthopedic impairments accounted for 13.8 percent of chronic conditions among children in low income families as compared to 9.7 percent in top income families.
- Blindness, visual impairments, and speech defects accounted for 12.4 percent of chronic conditions in low income families as compared to 6.4 percent in the \$7,000-and-over income group.

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<sup>3</sup> "Health of Children of School Age," Children's Bureau Publication, No. 427, 1964.



An examination of public assistance medical care programs shows clearly that they have not provided adequately for financing health and medical care for the neediest of all children—those who are dependent on public assistance. In 1965 more than \$1.3 billion were spent on all public assistance medical care. Yet, the AFDC program, whose recipients comprise 60 percent of the entire assistance caseload, received only 12 percent of the medical benefits, and 10 States did not provide any vendor medical care programs at all for such children.

The new title XIX program under the Social Security Act promises to provide basic assurance to the needy that they will not be without necessary medical services. Title XIX has numerous forward looking provisions designed to provide medical assistance of high quality with major reliance on declarations of circumstances and hence the minimum of time-consuming investigations, no unrealistic expectations of support from relatives, or the denial of aid because of lack of State residence. The forward looking provisions in title XIX provide valuable precedents for the recommendations of the Advisory Council which are directed to simplifying the administration of public welfare services generally.

The Advisory Council is concerned that many of the benefits of title XIX are potential rather than actual. It is the Council's opinion that with the large element of State option in the new medical assistance legislation, it is unrealistic to expect that all States will have the necessary resources to adopt and implement the new program promptly. By 1970 all States must begin programs under title XIX if they are to continue to receive Federal participation in medical care payments. However, particularly in the years just ahead, a resident of one State may benefit, while his neighbor across the line, equally ill and needy, may not.

Another difficulty for financially hard pressed States is the requirement that by July 1, 1975, the States must provide a broad program of medical assistance for all needy people in the State. The Council concurs in this goal. The provision for Federal sharing in the cost of reaching the goal, however, is not complete. Under the law States will receive matching Federal funds for only a portion of the needy people who do not have the same eligibility characteristics as persons receiving money payments. Federal sharing is currently available for providing needed medical assistance to children under age 21, but many other low income people cannot receive federally aided medical assistance. The groups omitted are persons between age 21 and 65 who are not blind, disabled, or the parents of a child under 21.

**The Council believes that these gaps should be closed through Federal sharing in the cost of medical assistance for the medically needy between 21 and 65 years of age.**



The Council is concerned that there are still glaring gaps in hospital and medical services for the more than 34 million Americans in poverty. The 1965 legislation should be considered only the beginning of the provision of medical care and services to the American people. The tabulation at the end of this chapter identifies the gaps and omissions in the provisions of coverage under the present law and also highlights some additional weaknesses in the financing of services where coverage is specified.

The nearly total lack of dental care services for all age groups in the low income segment is a matter of continuing and serious concern which requires prompt attention. The development of adequate dental services for the poor under the new medical assistance provisions of title XIX is left to the option of the States. Under title XVIII, the hospital and medical insurance program for the aged, no dental care is provided.

To assist the Advisory Council on Public Welfare, the Council on Dental Health of the American Dental Association, conducted a survey in which a questionnaire relating to dental services for children in public assistance programs was sent to the dental director of every State health department. Replies were received from 49 States. The American Dental Association reported, "On the basis of the data, there seems to be a general lack of coordination of activities and little provision of dental care in most States."

Title XIX provides that, effective July 1, 1967, the States, if their plan is to be approved, must provide five basic services: Inpatient hospital services, outpatient hospital services, x-ray and other diagnostic services, skilled nursing services (for persons over age 21), and physicians' services. This range of services, while encompassing many basic ones which large numbers of people need, has some serious omissions, notably in services for children. The omission of dental care, as a required service, is particularly acute.

**Therefore, although it is not required until July 1, 1975, the Advisory Council believes it is not only feasible, but necessary, to advance the provision of dental services, particularly for children, to a much earlier date.**

The Council commends the Department of Health, Education, and Welfare for its position on family planning as an essential part of the programs it administers. Within the public welfare program, family planning is not only an element of necessary medical services but of the social services program as well. Recipients of assistance and other persons in the community who turn to the public welfare agency for help must have counselors who can assist them to meet their problems in various aspects of family life, including family planning.

The Council is gratified that Federal sharing in these costs is possible under current legislation both as medical services and as social services.

**The Advisory Council on Public Welfare calls upon the Welfare Administration to exert strong leadership for the States in the development of family planning services as part of their medical and social services.**

## **CONCLUSION**

The Advisory Council on Public Welfare is in full agreement with the observation, "There is no better cure for poverty than money." However, the term public welfare means much more than the essential provision of money payments and medical care included under public assistance—it means a comprehensive program of social services for families and individuals of all ages.

Despite the substantial sums of money expended in efforts to alleviate many of the social problems that concern us, and despite the outpouring of reports, speeches, and ideas addressed to possible solutions for these problems—not enough is yet being done to bring supportive, referral, preventive, and rehabilitative social services to all of the people now living within critically disadvantaged groups or to those who are struggling to maintain their place within the norms of social adjustment.

Until the full potential of social services and the nationwide network of public welfare agencies are utilized far more effectively in our efforts to find answers for many of our social problems, we will be neglecting resources that could mean the difference between victory and defeat in our struggle to bring all of our citizens into full participation in the abundance and comfort that most of us enjoy.

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## STATUS OF MEDICAL AND DENTAL CARE SERVICES FOR 34 MILLION NEEDY AMERICANS

This brief summary highlights some of the concerns of the Advisory Council on Public Welfare:

### UNDER 21 YEARS OF AGE

- *No* hospital insurance
- *No* supplementary medical insurance to cover the cost of physicians' services and other medical costs
- *No* provision for care or services in a public institution (except a medical institution) or care or services in a TB or mental hospital
- *Optional* to States (until 1975) medical assistance *only* for children now receiving AFDC and certain other medically needy children <sup>4</sup>
- *Optional* to States, such services as dental care, eyeglasses, hearing aids, drugs, and transportation to get medical care
- *Inadequate* Federal matching for lowest income States

### 21-64 YEARS OF AGE

- *No* hospital insurance
- *No* supplementary medical insurance to cover the cost of physicians' services and other medical costs

- *No* provision for care or services in a public institution (except a medical institution) or care or services in a TB or mental hospital
- *No* Federal matching if poor but outside the categorical definitions of eligibility
- *Optional* to States (until 1975) medical assistance for *only* those now receiving public assistance (adults caring for small children, permanently and totally disabled and blind) and certain other medically needy persons.<sup>5</sup>
- *Optional* to States, such services as dental care, eyeglasses, hearing aids, drugs, and transportation to get medical care

### OVER 65 YEARS OF AGE

- *No* provision in supplementary medical insurance for drugs outside of hospital, dental care, eyeglasses, hearing aids, or transportation to get medical care
- *No* provision for long term nursing home care
- *Optional* to States (until 1975) medical assistance *only* for those now receiving assistance and certain other medically needy persons

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<sup>4</sup> Those children who would have been eligible for AFDC except they were over the State age requirement for AFDC but under 21 years of age, medically needy children in families in which the father is working for wages so low he is unable to pay for medical care, and children in foster care who are not technically eligible for AFDC.

<sup>5</sup> Those who would have been eligible if they had met residence requirements, or would have met other requirements if in need of financial assistance.

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*"Laws do little good unless people know about them. For a poor person to hold rights in theory satisfies only the theory. We have to begin asserting those rights—and help the poor assert those rights. Unknown, unasserted rights are no rights at all."*

NICHOLAS DEB. KATZENBACH  
Attorney General of the United States  
November 12, 1964

## **VII. RIGHTS OF INDIVIDUALS UNDER PUBLIC WELFARE**

THE ENTITLEMENT of persons who qualify under the law for public welfare is both explicit and implicit in the Social Security Act. This entitlement or right is reinforced by policies contained in Federal policy releases such as the Handbook of Public Assistance Administration. Recently the concept of legal entitlement to public assistance has received new emphasis through rulings of the Federal Government and the growing interest of the legal profession.

Still more needs to be done, however, both to guarantee that public welfare is more firmly established as a legal right and to strengthen the processes for enforcing the rights so recognized.

Furthermore, to state the principle is not an assurance that it is understood, remembered, or acted upon at all times and in all places.

THEREFORE: *The Advisory Council on Public Welfare Recommends  
That*

**All Welfare Programs Receiving Federal Funds Be Admin-  
istered Consistent with the Principle of Public Welfare as a  
Right**



**The Advisory Council on Public Welfare further emphasizes that to achieve this recommendation Federal law and policy must be explicit in requiring that all federally supported public welfare programs provide for:**

**A readily available and understandable application process for aid, whether for financial assistance or social services, including readily available and conveniently located public welfare offices in areas where people live;**

**Promptness in all administrative actions within specifically stated time limits;**

**A method or mechanism to assure legal representation for all who wish it, including payment for necessary costs of such representation;**

**An independent appeals system, with procedures and mechanisms so devised that decisions on appeals are truly independent judgments even when made within the framework of the administering agency;**

**An opportunity for aggrieved individuals to test the reasonableness of policies of the agency as well as the application of policies through the appeals process;**

**A positive program for informing recipients and applicants of their rights, utilizing all appropriate means of communication.**

The Social Security Act contains important provisions designed to assure basic rights to individuals<sup>1</sup> for whom the several programs are established. The provisions are based upon the premise that the statutory requirements governing the dispensation of public welfare services cannot be construed to supersede the Constitutional rights that belong to every citizen. They are included in each of the public assistance titles; similar provisions are included for the programs of Old-Age, Survivor's and Disability Insurance, and Unemployment Compensation.

These protections are not included in the legislation for child welfare services. Since they apply to the program for Aid to Families with

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<sup>1</sup> Title I, sec. 6(a); title IV, sec. 406(a); title X, sec. 1006; title XIV, sec. 1405; title XVI, sec. 1605(a); title XIX, sec. 1905(a).

Dependent Children, they also apply to foster care under that program. It was not until 1962 that a requirement was added to the law that by July 1, 1975, child welfare services shall be available in all political subdivisions of a State.

The public assistance titles of the Social Security Act include requirements for State plans to assure that State and local programs will be so administered as to protect certain basic rights of needy individuals. Since the establishment of the federally aided public assistance programs in 1935, these provisions have been included in State plans as a condition of Federal approval.

Some of these requirements deal directly with the protection of the rights of applicants and recipients. Among these are:

- the right to apply, and to receive assistance promptly, if eligible;
- the right to a fair hearing;
- the right to have basic needs met through an unrestricted money payment;
- the right to medical care.

#### **THE RIGHT TO APPLY AND TO RECEIVE ASSISTANCE PROMPTLY, IF ELIGIBLE**

An individual asserts his claim to assistance through the application process.<sup>2</sup> This process includes all activity relating to an application from an applicant's first indication to the agency of his desire to receive assistance to the payment or other disposition of his application.

Until 1950 the right of an individual to have his application considered, or if he was found eligible, to receive assistance immediately, was seriously impaired by the practices in some States of maintaining waiting list. Some States believed that effective pressure for more adequate appropriations would be achieved by evidence showing large numbers of individuals being denied any benefits of the program. The alternative of spreading available funds over the entire group by reducing payments to all recipients was not an easy choice.

In 1950, however, the Congress enacted the requirements, applicable to all categories, that

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<sup>2</sup> Handbook of Public Assistance Administration, sec. IV-2300.

"A State plan must . . . provide that all individuals wishing to make application . . . shall have an opportunity to do so and that (aid) shall be furnished with reasonable promptness to all eligible individuals."

The requirement, in effect, provides that:

1. The State plan must specify a time period to serve as a standard of reasonable promptness in all but exceptional cases. If the period established is longer than 30 days (60 days for APTD) the State must supply (1) justification for the longer period and (2) a statement of the action to be taken to remedy hindering conditions, and when this action will be put into effect.<sup>3</sup>
2. The State plan must also provide for informing claimants of the agency's standard of promptness, and of their right to request a hearing if action was not taken within that time.<sup>4</sup>

Some States provide immediate assistance (within 24 hours) to meet emergencies, and under Federal policy regarding presumptive eligibility, claim Federal funds only for cases in which eligibility for one of the categories is established within 3 months. This procedure can be utilized only by States that have general assistance or other State and local funds to meet the cost of cases that prove ineligible for Federal aid. In a number of States there is no effective manner of meeting emergency needs, and voluntary agencies have limited resources. Promptness in handling applications for the categories is crucial in these instances. The new emphasis on declaration forms offers an effective solution to the problem.

Although there have been major problems in "promptness" becoming a reality, the provision for the right to apply for and receive assistance, if eligible, has resulted in eliminating waiting lists.

For people whose needs are immediate, the present standards of promptness are clearly too slow. Simplification of eligibility requirements, of routines of applications and procedures for determining eligibility, and adequate funds to meet emergency needs are essential ingredients in the just administration of assistance.

## THE RIGHT TO A FAIR HEARING

The right for a fair hearing before the State agency of any individual whose claim for assistance is denied or delayed is the most fundamental expression of rights contained in the law.

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<sup>3</sup> See title I, Social Security Act (Public Law 271), 74th Cong., Aug. 14, 1935, as amended.

<sup>4</sup> Handbook, op. cit., sec. IV-2300.



The assurance to any claimant for assistance of the right to appeal to the State authority was included in the Social Security Act in 1935 to "provide a further assurance of the uniformity of administrative effectiveness within the States."<sup>5</sup>

The law is stated in terms of individuals whose "claim for assistance is denied or not acted upon with reasonable promptness." This has been interpreted to include application or reapplication, increases or decreases in the amount of assistance, or discontinuance of payment.

The use of the terms "claim" and "claimant" in the law reinforces the concept of a right.

The State is required to provide applicants with a clear procedure for taking appropriate steps to express dissatisfaction with agency action or failure to act. Written notification to the claimant of his right to a fair hearing is required at the time of application and in connection with each agency action on his claim.

An appeal procedure can be meaningful only if the eligibility requirements are clear and definite and information about them is readily available.

Applicants must be notified in writing that assistance has been authorized in a stated amount, or that it has been denied and the reasons for denial.

Although the appeal decisions represent the final action of the State agency, there should be provision to the individual for judicial review. Representation by counsel has always been permissible, but absence of any provisions for payment for legal services may well be one reason why relatively few decisions have been taken to the courts. At least one case,<sup>6</sup> taken to the State supreme court, resulted in a far-reaching decision on the effect of a family maximum on the rights of individuals.

The rights of claimants to appeal from decisions of the agency is a basic protection of law that must be given major emphasis in the administration of public welfare. It should be reinforced by careful studies and reviews of practice, by encouraging and making available legal services to clients both for appeals before the agency and for appeals to the courts. The process should be recognized not only as an opportunity for individual justice, but as a resource to the agency for strengthening or correcting its interpretation of the law governing its program and for continual review of the adequacy of the total appeals process.

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<sup>5</sup> Social Security Board, *Social Security in America*, 1937, p. 191.

<sup>6</sup> See Iowa: *Collins v. State Board of Welfare* 31 NW 2d4.



## **THE RIGHT TO HAVE BASIC NEEDS MET THROUGH AN UNRESTRICTED MONEY PAYMENT**

From the time of enactment, the Social Security Act has been clear that recipients are to receive their assistance in the form of a money payment. Although States have not been prohibited from providing aid in a form other than a money payment from their own resources, Federal financial participation has been limited to payments made in the form of money other than medical care and, in recent years, protected payments, in a limited number of cases. The limitation on Federal sharing of payments made in the form of money has had the effect of minimizing the extent to which States have made restricted payments or payments in kind.

Medical care was made an exception to the general principle of the money payment in 1950 in recognition of the longtime trend in this Nation toward the use of third party payments in the payment for medical care. In this respect, assistance recipients are in the same position as is every substantial group in the population which also has someone pay for medical care in its behalf.

The enactment of the protected payment provisions in title IV in 1962, under which it is possible for States to receive Federal financial participation in payments made to a third party in behalf of certain recipients of AFDC, is a deviation from the money payment principle. It was made to meet the situation of that small group of AFDC recipients who may not be spending the assistance payment in the best interests of the child. This kind of payment is limited, for purposes of Federal sharing, to 5 percent of the number of recipients in any State. In enacting this provision, however, the Congress reiterated that the AFDC program is basically a money payment program and the enactment of the provision authorizing protected payments is not intended to change the basic nature of the program.<sup>7</sup>

The money payment principle has proved to be one of the most essential protections for the rights of recipients. It is the one most subject to pressure from those who do not subscribe to the concept of assistance as a right. It has enabled recipients to spend their money like others in the community, to make their choices within the limits of their available money, and, thus, to maintain their dignity and self-respect.

## **THE RIGHT TO MEDICAL CARE**

Legislation enacted in 1965 adds an additional right for the poor. The Social Security Amendments of 1965, authorizing the program of Medical Assistance, under the new title XIX of the Social Security Act, make

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<sup>7</sup> 87th Congress—House Report 1414, p. 17.

clear that the provision of medical assistance is a right for persons of low income. After a period of optional action by the States, the law provides for a broad range of medical services to be available to a substantial proportion of the low income people in the State.

For all persons eligible under State plans, the law is clear that they are to have the right to apply, the right to prompt decision on their application, the right to a fair hearing on the decision, or lack of decision, and the right to be treated with dignity and respect. The law is also clear that the determination of eligibility is to be simple and that complicated and unproductive methods of determination are to be prohibited.

The effect of these provisions is to establish the right to medical assistance firmly as one of the basic rights of the poor. In some respects the Congress has carried the right to medical assistance beyond that specifically identified for other forms of aid or service.

**The Advisory Council hopes that, in these instances, the 1965 legislation will prove a forerunner to changes that will be made in the older money payment programs.**

## **ADMINISTRATIVE METHODS**

State plans must provide that the State agency will put into effect such methods of administration as the Secretary finds necessary for the proper and efficient administration of the plan, including a merit system. The requirements discussed above are of course basic administrative requirements and have been relied on more heavily than the requirements of specific administrative methods.

While these provisions have afforded a measure of protection they have not entirely served to avoid serious inroads in the rights of recipients through administrative practices.

An ever present influence on the administration of public assistance is the periodic pressure from legislators, the press, and other groups to rid the program of supposed ineligible. Unfortunately the pressures for the rights of individuals are less vigorously and consistently expressed.

Recent policy promulgated by the Welfare Administration and distributed to the States<sup>8</sup> to become effective July 1, 1967, will have a substantial effect on the day-to-day protection afforded the rights of applicants for and recipients of assistance. This policy was developed in response to a long recognized need for a comprehensive statement about appropriate methods for determination of eligibility in public assistance programs under

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<sup>8</sup> Handbook Transmittal No. 77, Mar. 18, 1966, Methods for Determination of Eligibility—Handbook IV-2200.

the Social Security Act. The policy imposes a requirement on the States that the methods of eligibility determination used shall be consistent with the objectives of the program and the constitutional and statutory rights of applicants and recipients, and shall not violate privacy or personal dignity or harass the individual. The Advisory Council believes that this policy will significantly improve the protections offered the rights of needy individuals.

## **SOCIAL SERVICES AS A RIGHT**

Because of the primary attention given the right to a money payment and later to medical assistance, the right to social services has not been as clearly formulated. The basic social guarantees proposed by this Advisory Council include social services as an essential element in the structure of protections which must be offered by government to the people. The protections and services offered must be available as a right if they are to be available in fact as well as law. The Council has already identified the need for emphasis on the rights to services for children and youth. Social services for others must also be available as a right, complete with the appeal process, and enforceable in the courts. In the structure of basic social guarantees, social services play so important a part to enable people to deal with their urgent problems that the Nation cannot afford to have these services available only as the administering agency perceives the need and has the resources. They must be provided as essential and statutorily authorized services.

## **CONCLUSION**

Needy people, as the most defenseless segment of the population, are in the greatest need of special protection. It is ironic that it is precisely this group that, too often, has the least protection along with the least of everything else.

**The Advisory Council on Public Welfare believes that there is great urgency for the emphatic assertion of public welfare's accountability for the protection of individual rights, and for the scrupulous observance of the individual rights of the people it serves.**



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*"And I believe that all who are concerned with the great social programs of the day—the Federal Government, State and local governments, universities and foundations, are going to have to recognize that those programs cannot go forward without adequately trained personnel."*

JOHN W. GARDNER, *Secretary*  
Department of Health, Education, and Welfare  
January 26, 1966

## VIII. MEETING THE SOCIAL WELFARE MANPOWER SHORTAGE

THE SHORTAGE of qualified personnel for social welfare programs is critical. The Nation has made a new commitment to assure equality of opportunity to all citizens. New laws have been passed, new programs initiated to solve social problems that bar millions of citizens from realizing their full potential. These new programs, and existing programs, are in jeopardy unless prompt and effective action is taken to assure a sufficient supply of manpower with skills and knowledge necessary to help the most vulnerable of our citizens reap the full benefits of new opportunities.

There is no central resource for Government support of education and training—support which is essential if the gap between needs and available manpower is to be narrowed. Public welfare, the largest employer of social welfare manpower, must have resources sufficient to assume a strong and central role in developing effective solutions to the all-pervasive problem of the extreme shortage in qualified personnel.

THEREFORE: *The Advisory Council on Public Welfare Recommends*

**Prompt Action to Enable the Welfare Administration to Expand Its Support of All Phases of Recruitment, Education and Training for Welfare Personnel, Including Pre-Professional, Professional, and Advanced Social Work Education; Vocational Training for Sub-Professional Aides and Technicians; and Research and Development in More Effective Use of Available Personnel**



In the United States in 1963 an estimated 125,000 persons were employed in social work positions in public and private programs.<sup>1</sup> Over half of all social welfare workers were employed by State and local governments, about one-third by voluntary programs, and, with the exception of the relatively small number of workers in international welfare activities, in industrial settings and in private practice, the remainder were employed by the Federal Government. It is estimated that about one-fourth of all social workers have a graduate degree in social work.

A large share of the national budget is expended for social welfare activities<sup>2</sup> broadly defined—activities which affect the lives of millions of citizens. The skill and knowledge of social welfare workers determines, in large measure, the success of these programs in meeting the needs of people for whose wellbeing the programs were designed. Increasing the number of qualified manpower is imperative if the Nation is to realize the full benefits for expenditures and efforts to assure access to opportunity for all citizens.

### **MANPOWER NEEDS IN PUBLIC WELFARE**

Today's public welfare programs not only need workers at the graduate, undergraduate, technical and vocational levels, but also allied personnel, such as behavioral and social scientists, lawyers, home economists, educators, medical personnel and health workers, skilled administrators, and allied personnel who are highly skilled in their own fields and have a thoroughgoing knowledge and dedication to public welfare services as well.

Recognizing the critical need for personnel with education appropriate to the task, minimum educational requirements for beginning social workers have been established at the college graduate level by the Welfare Administration.<sup>3</sup> A master's degree in social work is now required for specific key positions. A wide range of auxiliary personnel is being encouraged. Inservice training programs have been actively expanded. Education and training programs in agencies and in schools of social work are

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<sup>1</sup> "Employment Outlook for Social Workers," Occupational Outlook Report Series, Bulletin No. 1375-43, Bureau of Labor Statistics, U.S. Department of Labor, p. 3.

<sup>2</sup> Social insurance and other public retirement systems, manpower training programs, public assistance, vocational rehabilitation, health education, child welfare, and other welfare services were the second largest item in the Federal budget, second only to national defense. "The Budget of the United States Government for the Fiscal Year Ending June 30, 1965," U.S. Government Printing Office, p. 112.

<sup>3</sup> Standards set in cooperation with the Division of State Merit Systems.

being financed by the Children's Bureau. Education and training for State and local family services workers are being financed with matching funds—75 percent by the Federal Government and 25 percent by the State and/or local agency.

This is only a beginning. Many more qualified staff are needed. Such staff must be used more effectively; ways must be found to reduce demands on qualified workers and, at the same time, eliminate underutilization of advanced competence. While stressing the need for more staff with the high degree of competence essential for leadership in program planning, policy decisions, and skilled administration on the one hand, the field has lagged in breaking down essential services and functions to open the doors to a wide range of aides, auxiliary workers and technicians who can provide effective supporting services. Day care and homemaker services alone require many thousands of such personnel.

The jobs of the core professional, the social worker, and that of all other welfare workers are not only related but are intertwined. Education and training must give workers at all levels appropriate skills and knowledge and must promote the flow of workers into increasingly more demanding jobs and more advanced education until all workers contribute their highest potential to the social welfare task. Educators, whether planning college education or agency inservice training, must identify the basic skills and knowledge that are fundamental to all social welfare jobs. These basics should be taught at the earliest appropriate levels so that more advanced education and training can be reserved for more advanced knowledge and skill development. Social workers more and more are serving as administrators; they must have better specific preparation for this role.

Support for education and training programs in social work must be expanded at all levels. Undergraduate courses can prepare greatly increased numbers of personnel. At the same time, the content of undergraduate study must be examined to improve the effectiveness of college education as preparation for immediate employment in welfare programs and as preparation for graduate study. Advanced education must better prepare staff for leadership in administration of welfare programs, highly skilled practice, sophisticated research, and social policy development.

Graduate social work education must be expanded. The 60 schools of social work now functioning in the United States have reached a saturation point in enrollment. They must turn away many qualified applicants each year. Eighteen States have no school of social work. If graduate social work education is to expand, Federal support must be given to enlarge faculty,

research staff, and facilities. Stipends must provide the means and add to the incentives for students to enter the field.

Social welfare workers cannot be educated in isolation from the setting in which they must practice acquired skills. Neither can they continue to grow in competence isolated from the university setting. All agencies need the advantages of practical knowledge and insights acquired in other settings. Knowledge acquired in one setting, agency or school, gives workers advantages in other settings.

It is estimated that by 1970 over 62,000 additional graduate social workers will be needed by State and local public welfare agencies and delinquency control programs.<sup>4</sup> But, fewer than 3,000 social workers are graduated annually for all public and private programs. Currently, about 4 out of every 10 social work positions are in State and local welfare programs where the proportion of workers with graduate degrees in social work ranges from 1 percent<sup>5</sup> of caseworkers and 13 percent of supervisors in public assistance programs to 15 percent of full time caseworkers and 60 percent<sup>6</sup> of full time supervisors in child welfare programs.

**Number and Percent of Social Welfare Workers by Type of Employer, 1960<sup>7</sup>**

	<i>Number</i>	<i>Percent</i>
<b>All agencies.....</b>	<b>105,351</b>	<b>100</b>
<b>Government agencies.....</b>	<b>66,806</b>	<b>63</b>
State and local government.....	64,022	60
Public welfare agencies.....	41,792	39
All other State and local agencies....	22,230	21
Federal Government.....	2,784	3
<b>Voluntary agencies.....</b>	<b>38,545</b>	<b>37</b>

<sup>4</sup> Department of Health, Education, and Welfare, "Closing the Gap in Social Work Manpower," Report of the Departmental Task Force on Social Work Education and Manpower, Washington, D.C., Nov. 1965.

<sup>5</sup> Bureau of Family Services, Welfare Administration, "Data on Manpower for Staffing Public Assistance Programs," Washington, D.C., 1964.

<sup>6</sup> "Closing the Gap in Social Work Manpower," op. cit., p. 24.

<sup>7</sup> National Social Welfare Assembly, Inc., "Salaries and Working Conditions of Social Welfare Manpower in 1960," New York, 1961, and Bureau of Family Services and Children's Bureau, Welfare Administration, "Public Social Welfare Personnel, 1960," Washington, D.C., 1962.



## ESTIMATED SOCIAL WELFARE MANPOWER NEEDS BY 1970 FOR WELFARE PROGRAMS

### Public Assistance

#### *Public Assistance Social Work Staff Needed in 1970 <sup>8</sup>*

Type of position	Goal for 1970		
	Total number	With 2 years or more of graduate study in social work	
		Number	Percent
<b>Total.....</b>	<b>95,000</b>	<b>31,500</b>	<b>33</b>
<b>Directors:</b>			
State offices.....	700	525	75
Local offices.....	2,300	1,150	50
<b>Director-workers.....</b>	<b>1,200</b>	<b>1,200</b>	<b>100</b>
<b>Caseworkers.....</b>	<b><sup>1</sup> 73,100</b>	<b>15,500</b>	<b>21</b>
<b>Supervisors.....</b>	<b><sup>1</sup> 13,900</b>	<b>9,300</b>	<b>67</b>
<b>Field representatives.....</b>	<b>800</b>	<b>800</b>	<b>100</b>
<b>All other social workers.....</b>	<b>3,000</b>	<b>3,000</b>	<b>100</b>

<sup>1</sup> Excludes staff needed for the medically indigent under title XIX (Medical Assistance Programs) or for marginally needy persons requiring preventive and rehabilitative services under the other public assistance titles. Furnishing preventive and rehabilitative services to the marginally needy would require an additional 10,000 to 15,000 caseworkers and 2,000 to 3,000 supervisors.

By 1970 approximately 95,000 <sup>9</sup> social workers will be needed to meet program requirements in State and local public family services programs. To obtain full advantage of services under the 1962 Amendments, one-third of this number should have completed 2 years or more of graduate social work education. This is an increase in graduate social workers from less than 5 percent of total staff to 28 percent, from less than 2,500 workers to more than 31,000. These estimates will require further upward revision as the impact of the 1965 amendments to the Social Security Act are felt in State and local programs. Furthermore, they do not include the burgeoning numbers of subprofessionals so essential to the delivery of the comprehensive social services program envisaged in this report.

<sup>8</sup> "Closing the Gap in Social Work Manpower," op. cit., p. 39.

<sup>9</sup> Combined figure including present and needed additional qualified staff.



## Public Child Welfare

### Public Child Welfare Social Work Staff Needed in 1970

Type of position	Estimated number of employees
Total child welfare positions.....	21,000
Total professional positions <sup>1</sup> .....	19,400
Child welfare directors.....	360
Field representatives.....	400
Child welfare specialists.....	700
Supervisors.....	3,000
Caseworkers.....	14,900
Child welfare assistants <sup>2</sup> .....	1,600

<sup>1</sup> Positions require 2 years of graduate social work training.

<sup>2</sup> Positions require a bachelor's degree.

Public welfare departments will require about 21,000 workers to staff child welfare services in 1970, exclusive of a comparable number of subprofessional personnel whose tasks are only now being clarified. To meet the Children's Bureau standards of care—to staff every county with at least one full time child welfare worker and to maintain a caseload of no more than 60 cases per worker—over 19,000 of the 21,000 workers must be graduates of schools of social work. (In March 1964, 1,207 counties had no full time child welfare worker.)

The new maternity and infant care projects developed under the 1963 Maternal and Child Health and Mental Retardation Planning Amendments of the Social Security Act have created large numbers of social work positions, many of which are unfilled.

### Other Public Welfare Manpower Needs

In addition to requirements for family service and child welfare workers, as described above, there are other equally pressing social welfare manpower needs. The Children's Bureau estimates that about 11,000 graduate social workers will be needed in delinquency and control programs. To provide one specialist in social services to the aging in each State and local public welfare agency, 3,200 more social workers will be needed. Work experience and job training projects operated by public welfare agencies will require another 2,000 social workers.

New requirements for social workers are being created by provisions in the recently enacted Social Security Amendments of 1965 for increased child health care and medical assistance. Like the estimates for subprofessional staff, these new requirements have not been included in the estimates for needed social welfare manpower.

## **PUBLIC WELFARE FELLOWS**

To help solve at least part of the need for enlarging the leadership pool for public welfare, the Advisory Council has endorsed a new program of Public Welfare Fellowships which will enable social welfare workers to move easily between agencies and between schools and agencies for limited periods of time for specific projects or assignments that will strengthen the interchange between participating institutions and will provide career-relevant experiences for the development of leadership within the field of public welfare.

As a flexible individualized program, limited to persons with high potential, the Public Welfare Fellows Program would promote acceptance of off-campus learning, give educators an intimate knowledge of the agency settings for which they are preparing students, and, combined with extension of advanced education, would widen the essential interplay between basic behavioral and social sciences and social work practice and welfare administration.

## **TASK FORCE ON SOCIAL WORK MANPOWER**

In recognition of the increasing gravity of the social work manpower shortage and its implications for the ultimate success or failure of the Nation's health and education, as well as welfare, programs, Wilbur J. Cohen, Under Secretary of the Department of Health, Education, and Welfare, established, in January 1963, a task force of representatives of constituent agencies to identify the causes, the present and future dimensions of the manpower gap, and to consider action measures to meet the problem.

The following excerpts, highlighting the manpower shortages of the public welfare programs, are from the Task Force Report, *Closing the Gap in Social Work Manpower*, published in November 1965.

On public welfare services: <sup>10</sup> “. . . It (public family services) can serve as a first line of defense against family and individual breakdown, and can provide effective rehabilitative services as appropriate, only if personnel are available to fulfill the intent of

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<sup>10</sup> See Chapter VI.

the law in making the services available to the individual in need. Nowhere in the broad field of social welfare is the manpower crisis more acute or more fraught with serious effect on the community."

On child welfare services: <sup>11</sup> ". . . In this type of program, manpower needs cannot be computed in administrative or economic terms alone. The social cost to a child who has already suffered deprivation of parents and substitute parents is inestimable when he also experiences frequent changes in the social worker. The clients served in this program are among the most vulnerable in the total population. Sufficient staff and adequately prepared staff providing services with continuity are overwhelming needs recognized by all conversant with the problem . . ."

On juvenile delinquency: <sup>12</sup> "A major problem affecting probation, as one aspect of corrections, is the lack of adequate staff . . . Detention facilities and correctional institutions use a wide variety of social work and ancillary personnel . . . There are many short-term educational programs made available to detention and institutional staff under a variety of sponsors, particularly those sponsored by the Office of Juvenile Delinquency in the Welfare Administration, but there is as yet no complete educational program designed to meet the training needs of this group."

## CONCLUSION

Manpower is the key to success or failure as public welfare responds to the growing national conviction that all Americans have an inherent right to the basic opportunities of life in the 20th century.

Social work is the central discipline in public welfare but is increasingly supplemented by personnel in allied technical and professional occupations. The role of the social worker in identifying and responding to present and future social needs is being enlarged by new links with other disciplines in human services, new emphasis on social action and leadership development, new development of multiservice activities, and increased collaboration with other institutions. Social work leaders are acutely aware of the social forces now in motion, but are seriously hampered by their small numbers and limited support.

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<sup>11</sup> *Ibid.*

<sup>12</sup> *Ibid.*

These handicaps can be overcome. Data now available from the Council on Social Work Education strongly indicate that if we are willing to commit the necessary financial resources, projected manpower goals for social welfare are achievable within the next decade.

Increasing the number of social workers is urgent. But, simply increasing numbers will not begin to meet the continuing manpower crisis unless research<sup>13</sup> and development activities are directed to a better understanding of the optimum role of the social worker in agency activities and to the development of viable methods of increasing the effectiveness of all social work manpower. Most important is research to help delineate the social tasks and the operating and practice conditions in which the use of specific social work skills at all levels is appropriate and effective.

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<sup>13</sup> See Chapter IX.





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*"Can we harness the best of social theory and develop bold patterns of testing and application to push forward our capacity to deal effectively with our major problems, prevent new ones from arising, and enhance the well-being of our people? . . . Are we putting into practice what we know now?"*

HERMAN D. STEIN, *Dean*  
School of Applied Social Sciences  
Western Reserve University  
March, 1966

## IX. EXTENDING SOCIAL WELFARE RESEARCH

IN A SCIENTIFICALLY oriented age in which the achievements of research in health, industry, and science offer daily evidence of the advances made possible by modern research, the field of social welfare lags behind.

According to leading experts, combined government and industry research and development costs stand now at about 3 percent of the gross national product.<sup>1</sup>

Despite the magnitude of the public welfare program and its crucial effect upon millions of lives, an estimated one-tenth of 1 percent of its total cost of \$6 billion<sup>2</sup> is allocated to social welfare research.

A major national effort to advance the research component of social welfare offers the best hope of developing a usable body of knowledge about the nature and causes of social problems, about the structures and forces of society that generate them, and about ways to deal with them most effectively.

Much more research-based knowledge is urgently needed to support the operating knowledge that has been gained from past experience and relevant research in allied fields if the goals of the Nation's social welfare programs are to be reached.

THEREFORE: *The Advisory Council on Public Welfare Recommends*

**The Welfare Administration be Enabled To Mount a Social Welfare Research Effort Commensurate in Size and Scope With the National Investment in Its Programs.**

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<sup>1</sup> Percentage is derived from preliminary estimated research and development data from the National Science Foundation and data on the GNP from the U.S. Department of Commerce, Office of Business Economics *Survey of Current Business*, April 1966.

<sup>2</sup> Combined Federal, State, and local public welfare programs.

The development of research in the social welfare field has not kept pace with the more exact social science disciplines. Public welfare, in particular, has much to gain in developing a base to guide decisions in program planning and development. It is extremely important that the Welfare Administration exert leadership in developing research capabilities in its field as well as accelerating research activities in its intramural and extramural programs.

In Federal agencies, contract research and directed research programs provide the major means for advances in research based knowledge. Contract research allows the government to specify the research problem, the general outlines of methodology, and the type of product expected. Research involving policy issues in particular should be handled through the directed or contracted method. It is very rare for an individual investigator outside of government to be interested in nationwide types of inquiries. Therefore, government cannot wholly depend upon the interest of the university research community for answers to public welfare policy and program problems. On the other hand, it is not wise to put all research efforts into government contracts because maximum freedom of research must be preserved and individual investigators must be encouraged to develop their own interests and to pursue avenues of investigation which they, rather than the government, see as promising.

An effective, balanced government agency research program will shape its program according to the mission to be achieved and the resources available from outside of government. If the necessary research is not being conducted in existing research centers throughout the country, then a greater burden is placed on the government agency.

There must be sufficient professional staff in the governmental unit to monitor grants programs and research contracts. A balance between administrative and policy research must be maintained, along with necessary long range, more basic, research. Increasing demands are placed upon the research staff for the ideas and the data basic to long range planning. A national depository of program and financial statistics is essential to carry out day-by-day agency responsibilities. When new knowledge or new research tools and techniques are needed, either the government must have the capability to get the work done elsewhere, or resources must be available within government.

Federal grants for the study of social and related economic problems are administered by the Welfare Administration under several major programs:

## **1. THE GRANTS PROGRAMS WITHIN WELFARE ADMINISTRATION**

a. Cooperative Research and Demonstration Grants, Section 1110, Social Security Act.

The Cooperative Research and Demonstration Grants program encompasses three general areas of social concern. These are: The prevention and reduction of poverty and dependency; the organization and coordination of public and private welfare services; and improvements in the efficiency and effectiveness of social welfare and social security programs. The grants of this program are administered by the Welfare Administration with the cooperation of the Social Security Administration and are awarded to public agencies or voluntary organizations. The law requires recipients to assume a share of the cost.

b. Child Welfare Research and Demonstration Grants, Section 526, Social Security Act.

This program, administered by the Children's Bureau, provides support for research and demonstration projects which show promise of substantial contribution to the advancement of child welfare.

Emphasis has been placed on the development of programmatic research in Schools of Social Work, pediatrics departments of medical schools, and other related departments of universities and national organizations. Examples of current research are studies relating to the abused child, protective care, cost and organization of children's services, child care facilities, special practice areas such as adoption, unmarried mothers, foster care, and preventive services.

In addition, the Children's Bureau operates a Maternal and Child-Health and Crippled Children's Grants program, under part 4, title V, Social Security Act.

c. Juvenile Delinquency Demonstrations, Public Law 87-274 (Juvenile Delinquency and Youth Control Act of 1961).

During the early phase of this program, 1962-64, grants were made to 16 communities to plan demonstrations of comprehensive community action focused upon delinquency prevention and control.

In addition to the comprehensive demonstration efforts of the Office of Juvenile Delinquency and Youth Development, recently more focused demonstration projects have been addressed to the correctional system, youth agencies, and treatment innovations. These projects have a strong research and evaluation component and are smaller and of more limited time duration than the early large projects.



Training grants are directed toward the development of research capability for assessment of curriculum, formulating and encouraging studies of the effect of training, on-the-job performance, and the exploration of methodological issues and evaluations in the juvenile delinquency field. These grants have included such areas as policy training in human relations, the training of nonprofessionals, effective strategies in the organization of community members for action on problems of delinquency, and training and manpower needs.

d. Bureau of Family Services Demonstration Projects, Section 1115, Social Security Act.

The Bureau of Family Services Demonstration Projects are focused on improvements in public assistance administration and hence are discussed under the chapter on Administration.

## **2. INHOUSE RESEARCH**

The conduct of research and collection and analysis of program statistics take place within the Division of Research in the Children's Bureau, in the Division of Program Statistics and Analysis in the Bureau of Family Services, and in the Division of Research, Office of the Commissioner. Welfare Administration research activities may be classified into four categories:

### **a. Utilization of Research Findings**

One of the objectives of research activities in a Government agency is to organize and interpret research findings from a variety of sources so that this knowledge can be brought to bear in program planning and development. The communication of research findings takes place through articles in the monthly journal of the Welfare Administration, *Welfare in Review*, and through special reports and monographs.

### **b. Social Science Research Projects**

Through the use of contract funds, a limited amount of money is available for procurement of research and statistical information. In addition, a newly authorized directed research program will provide a means of conducting national surveys of substantial scope which will provide results for program guidelines and policy decisions.

### **c. Statistical Reporting Systems**

The Bureau of Family Services, through the regional offices and States, compiles a series of continuing program statistics related to the categorical programs. The Children's Bureau, through voluntary cooperation of the States and social agencies, collects statistical data on child welfare services.

#### d. Administrative and Policy Issues

Almost half of the inhouse research resources are directed toward analysis and research on current administrative and policy issues: Income maintenance questions, family planning, cost-benefit studies, program effectiveness, financing of public welfare and similar issues. The *Study of Drug Purchase Problems and Policy* is illustrative of this type of research activity.

With the impetus in the last several years of new program legislation, it is imperative that the research and statistical activities be strengthened and enlarged in scope. Not only is it necessary to provide operating statistics for program planning and evaluation purposes for programs directly under the administrative auspices of the Welfare Administration, but it is equally essential to have information which monitors the social welfare progress of the Nation as a whole. Since Government is responsible for the largest sector of these programs, it is important continually to assess the total impact of all programs in their efforts to achieve common social goals. A national center is urgently needed with responsibilities for measuring and reporting on the social state of a nation, for maintaining social indicators of our social development, and the progress being made toward achieving progress on the quality of life objectives of our great society.

**Toward this end, the Advisory Council urges that the present division of research be greatly strengthened as rapidly as possible so that it becomes a national social welfare research center which provides (a) a setting for research and development in the area of human resources; (b) a center for the dissemination of social information; (c) a facility for collection, storage, and retrieval of social statistics and other relevant information; (d) a stimulus to creativity and innovation in the monitoring and solving of social problems; and (e) a vehicle for continuing assessment of the social state of the Nation.**

Existing inhouse resources must be strengthened in order to keep pace with the new research issues which emerge in the current political, social, and economic climate changes. New questions are being posed: How feasible is an annual guaranteed income? What should constitute a floor under public assistance? What are the administrative costs of delivering assistance benefits? What social work tasks can be performed effectively by personnel with less than the master's degree. What are the objectives of social services in public welfare and how effective are they in achieving these objectives? What media are most effective in communicating information about family planning available to those who want this help? What factual evidence do we have on effects of work incentives and levels of financial assistance?

Old questions have remained only partially answered and are still with us today. What are the causes of poverty? How are some persons able to escape from the slums while others remain in the city ghettos? What societal forces and what individual handicaps contribute to the rising number of female-headed households? How much is the misery of poverty due to individual deficiencies and how much to inequities in societal institutions and organization? These difficult questions will be with us for some time but the answers will come in increments, as one piece of research builds or another.

In order for public welfare to make its full contribution to the development of a better society, we must provide for continuous evaluation of the state of our knowledge and our success in applying it. Such evaluation requires clarification of objectives. Not only is hard data needed for use as social indicators to provide readings on social change but clearer concepts of the social goals we are reaching for are equally essential.

**The Advisory Council is also of the opinion that in addition to the establishment of a national social welfare research center, an effort should be made to strengthen and develop research capabilities in the social welfare field through regional research and teaching centers where schools of social work or social science departments can establish cooperative experimental programs with State or local public or private social welfare agencies (comparable to teaching and research hospitals).**

## CONCLUSION

Modern knowledge in all fields is developed upon the firm basis of systematic investigation—the scientific method. We live, it has been said, in the midst of a “knowledge explosion.” We are dedicated to solving, insofar as is humanly possible, such problems as poverty, dependency, violence, and social alienation—yet the knowledge explosion has not yet occurred in our major national effort to treat our social problems, the public welfare program.

The research process is an accumulative one. Advances are made in spurts and may come from different directions—economics, sociology, social work, anthropology, or psychology. Social problems associated with poverty and alienation are complex and multifaceted. Programs developed to alleviate these and related problems require much more than goodwill and faith for effectiveness.

**It is the conviction of the Advisory Council on Public Welfare that many answers to our questions about social ills will be found in the same way that modern man has searched for answers to his physical ills. Investment in new knowledge must go hand-in-hand with our investment in people.**



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*“ . . . A more realistic Federal staffing pattern is needed, and a closer look at the tasks to be assigned to professional and clerical employees.”*

J. A. GLOVER, *Director*  
Nash County Dept. of Public Welfare, and  
President, Directors of Public Welfare  
Association of North Carolina  
April 30, 1965

## **X. IMPROVING ADMINISTRATION OF PUBLIC WELFARE PROGRAMS**

MUCH of the complexity of administering public welfare programs can be attributed to the nature of the public welfare laws. The intricate web of legal and technical requirements under which public welfare programs operate has its origins in a series of responses, at Federal, State, and local levels, to conflicting pressures generated by the desire to improve and expand services and, at the same time, keep costs and numbers of recipients of public assistance down. Essential services for families, children, and youth have often been grossly neglected for lack of clear legislative authority or because of limited appropriations and staff in relation to total responsibilities.

Federal and State agencies administering public welfare currently operate under the two severe handicaps of inadequate funds for administration and insufficient staffing. Despite these handicaps, continuing, substantial efforts are being made to improve and modernize program administration. The Advisory Council on Public Welfare commends the actions of the Welfare Administration and the States directed toward improving administrative systems, facilities, procedures, and practices.

Much, however, remains to be done even within the context of current laws. More will be necessary to strengthen Federal leadership, direction, and technical assistance if the recommendations of the Advisory Council are acted upon.

THEREFORE: *The Advisory Council on Public Welfare Recommends:*

**That the Resources of Staff and Administrative Funds for the Welfare Administration and for State Public Welfare Agencies Be Expanded Commensurate with Needs for Staff and Facilities Necessary To Improve and Update Program Administration.**



Repeatedly, both internal and external criticism of the public welfare programs focus on costly complexities and inefficiencies in program administration that adversely affect the welfare of needy people. Paperwork is excessive; procedures, complicated; and staffing, inadequate not only in sheer numbers but also in professional qualifications and skills. Much of the complexity and inefficiency of public welfare administration is rooted in complexities, inequities, and inadequacies written into Federal and State public welfare laws.

Currently, salaries for many public welfare jobs are too low to attract or to retain the most qualified people. Despite substantial improvements since 1962, workloads are still too high in many States to permit professional satisfaction and performance on the job, not to mention effective and efficient services to the needy. Too many public welfare agencies, including the Welfare Administration, do not yet have adequate organizational structure or the number and variety of qualified personnel to carry out their complex jobs. Nor has enough been done to define and distinguish the many levels and varieties of skills needed for effective and efficient program operation.

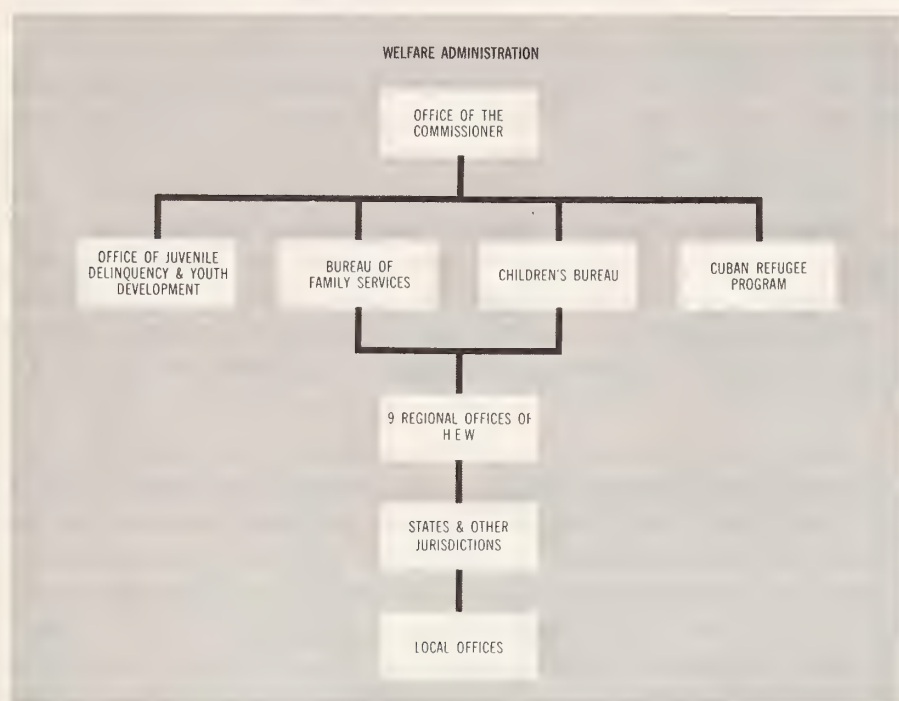
State merit systems are frequently so slow in their functioning that instead of supporting strong progressive administration they cause excessive delays in putting new programs into operation or carrying out essential updating of existing programs. Ways must be found, the Council believes, to make sound merit system principles and efficient operations more directly supportive of improved administration of public welfare.

A recurrent fallacy inherent in many discussions and considerations of public welfare expenditures is that administrative costs should be evaluated on the "debit" side of the ledger. The inevitable conclusion, then, is that such costs necessarily—too often arbitrarily—must be kept minimum and even static. Thus Congress and State legislatures often show greater reluctance to approve and fund needed increases in administrative costs than in other program areas.

Administrative costs should, of course, be scrutinized carefully and continuously to insure optimum benefits for expenditures. On the other hand, pennies spent to improve administration can mean dollars earned in benefits to needy people and to the community that pays the bill.

In addition to the difficulties resulting from inadequate organization and staffing, public welfare administration is plagued by overly detailed administrative systems, procedures, and practices. The result is an excess of paperwork, unnecessary risks of error in program operations, and a diversion of scarce professional and technical skills to housekeeping and clerical

**TABLE OF ORGANIZATION OF THE WELFARE ADMINISTRATION,  
DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE**



functions. Many of the details and complexities of program administration are inherent, indeed required, in provisions of Federal and State welfare laws. These handicaps to effective and efficient administration can be eliminated only if the programs are changed as recommended by the Advisory Council.

A large area for improvement remains, however, even in the context of the current laws. Considerable and commendable efforts already are being made by the Welfare Administration and the States to simplify and modernize administration within available resources. In recognition of the importance of efficient and effective administration, the Welfare Administration continues to carry out vigorous and multiple activities to improve administration; for example: conducting a continuing review of its own administrative structure and functioning, through advice of management consultants and specific management-improvement studies; designing and requiring methods and tools of continuing Federal and State reviews of program operations and initiating necessary corrective action through such devices as statistical reports, a quality control system related to eligibility determinations for public assistance, and administrative reviews; providing leadership

and establishing guidelines and standards related to development of staff with requisite qualifications and in more nearly adequate numbers to carry varying degrees and kinds of responsibility; providing technical assistance related to simplification of procedures, notably in the area of eligibility determination and development of assistance standards for public assistance; and expanding numbers and varieties of skilled consultant and specialist staff available to States and localities.

Similarly, States have been moving to improve their administrative organization and procedures: to increase the number and qualifications of their staff; to develop simplified and more efficient administrative systems, procedures, and practices; to modernize their facilities. Heartening progress in staffing, staff qualifications, and staff development have resulted from State use of additional Federal funds provided by the 1962 public welfare amendments.

Despite such measures, all efforts must be continued and substantially expanded to simplify, coordinate, and improve administration of the programs. Both Federal and State staffs generally are still too few in number to carry the job that must be done. More could and should be done, also, to coordinate and focus administrative effort. In this connection, the Advisory Council urges that the staff of the United States Commissioner of Welfare be expanded to include regional representatives of that Office comparable to those for all other operating agencies of the Department. The Welfare Administration is responsible for many programs, all of which involve continuing and overlapping relationships with the States. The lack of a coordinating person, directly responsible to the Commissioner, in each regional office is administratively unsound. Moreover, without such coordinating staff, measures for essential administrative improvement cannot be carried out with promptness nor with maximum and broad-range effectiveness. Nor can open channels of communication to the field be efficiently and easily maintained.

## CONCLUSION

In the field of public welfare where the end product of management is the prevention and alleviation of human need, administration assumes extra dimensions not ordinarily associated with more impersonal operations and procedures.

The problems presented in the administration of public welfare services are not the relatively measurable management problems that yield readily to such objective tests as greater production, lower unit costs, and more profits. Rather, the basic challenge is to devise and maintain an administrative structure that will assure full benefits, and protect the rights



of applicants and recipients of assistance and services while fulfilling the needs for efficiency, accountability, and legality that are an intrinsic part of publicly financed undertakings.

In view of the skills and facilities required, proper and efficient administration of the public welfare programs cannot be expected to "come cheap," especially in today's labor market—certainly not as cheaply as it is now funded. To the contrary, necessary expansion of funds and organization is inevitable and imperative. Efficient and sound administration of the Nation's public welfare programs is an essential ingredient for cost-effectiveness and for "profit making" in terms of human and moral values as well as in dollars and cents.

Despite the significant progress in simplifying administrative procedures achieved in the past few years, major problems will remain until the complex legislative bases of the programs are corrected.

If the major recommendations of the Advisory Council regarding financing, eligibility, adequacy, and comprehensiveness are adopted, there will be need for a comprehensive review and revision of the administrative structure, with a much strengthened role for Federal leadership, for bringing into balance Federal responsibility and Federal accountability.

**Until the time its proposals are fully implemented, it is the belief of the Council that significant improvements in administration can be made by immediately furnishing the Welfare Administration adequate resources to exert maximum leadership within the framework of the existing structure.**





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*"The modern concept of social planning is evolving primarily through many shared experiences in international technical assistance and exchange between countries."*

Report of the Committee on Social Welfare  
White House Conference on International Cooperation  
December 1, 1965

## **XI. INTERNATIONAL SOCIAL WELFARE ACTIVITIES**

AS INTERNATIONAL EXCHANGE and cooperation have increased markedly in many fields, such as science, health, and education, there has been a similar development in the field of social welfare.

While the scope of international social welfare programs, under all auspices, has grown dramatically in recent years, except for an intermittent foreign currency allocation,<sup>1</sup> virtually no funds have been appropriated for these growing activities in the Welfare Administration.

It is the opinion of the Advisory Council on Public Welfare that the International Office of the Welfare Administration does not have adequate resources to discharge its present functions, nor can it undertake an enlarged role fully responsive to the needs for greater international cooperation in this field.

THEREFORE: *The Advisory Council on Public Welfare Recommends*

**That the International Office of the Welfare Administration  
Be Given Necessary Authority and Resources to Strengthen  
Its Role as a Major Participant in International Social  
Welfare Programs**

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<sup>1</sup> For the fiscal year 1966 the equivalent of \$1,200,000 in foreign currency was allocated for U.S. participation in international social welfare and maternal and child health research and demonstration projects. No foreign currency funds were allocated for these purposes during the preceding two fiscal years.

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Three-fourths of the world's nations maintain ministries for social welfare functions. International social welfare activities are carried out through the cooperation of these national ministries with the United Nations, the Organization of American States, and many international nongovernmental organizations.

Additionally, many governments and national voluntary agencies sponsor technical and cultural programs which provide for intercountry cooperation in various phases of social welfare, such as technical assistance, training, relief and rehabilitation, dissemination of information, and research.

In the United States, the Welfare Administration in the Department of Health, Education, and Welfare serves as a focal point for cooperative international activities in social welfare. Through its International Office, it:

- provides services for visitors from abroad, recruitment of social welfare experts and scholars to meet requests for overseas assignments, technical consultation and information services, and an intercountry research program;

- cooperates with the Department of State in the development of foreign social welfare policy, and with international public and voluntary agencies and officials of foreign countries concerned with social welfare by providing information and materials, conducting studies and demonstrations, and analyzing and publishing information resulting from such studies;

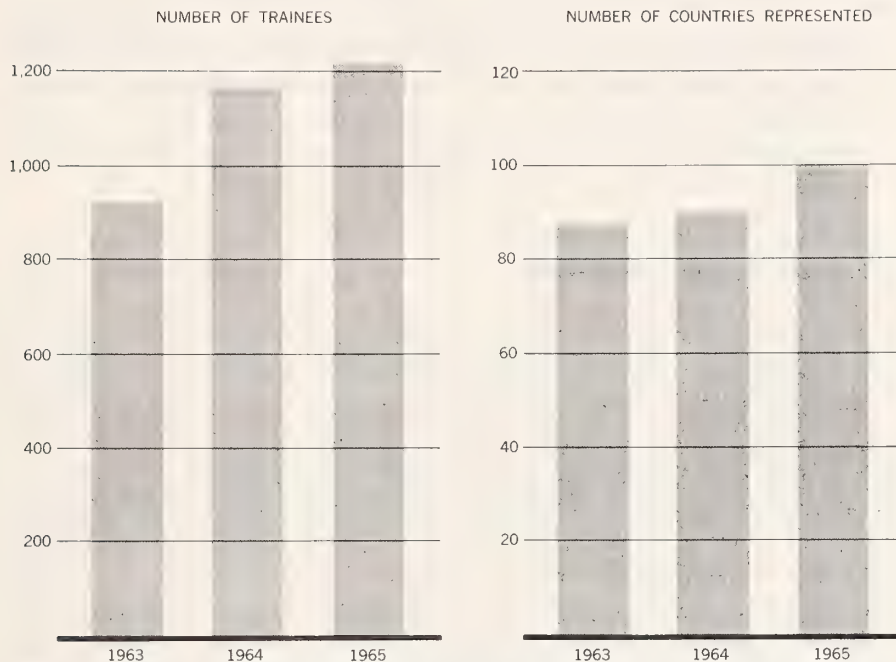
- assists other Federal agencies and international organizations in planning and conducting social welfare programs in other countries; and

- participates in international social work education both here and abroad, and in meetings and other activities of international public and voluntary agencies and organizations concerned with social welfare.

## **SERVICES FOR VISITORS FROM ABROAD**

The number of visitors from other countries coming to the United States for study of social welfare and maternal and child health programs indicates a growing interest in exchange. During 1965 the Welfare Administration provided services to more than 1,200 international visitors from 100 countries on study grants made available by the United Nations, the World Health Organization, the Organization of American States, the United States Cultural and Education Exchange, and the Agency for In-

## GROWTH OF WELFARE ADMINISTRATION INTERNATIONAL TRAINING PROGRAMS, FISCAL YEARS 1963-1965



Source: U.S. Department of Health, Education, and Welfare; Welfare Administration. International Office.

ternational Development, or were financed by their own governments or through grants of voluntary agencies or foundations.

The Welfare Administration and the Agency for International Development have jointly sponsored several specially designed group seminars for experienced social workers who have limited time available for foreign experience.

### INTERNATIONAL RESEARCH PROGRAM

A new partnership in cooperation with other countries in the field of social welfare was inaugurated in 1962 when an international research program, financed by U.S.-owned local currencies, was launched. By the end of 1964, 33 social welfare and child health projects in six countries—India, Israel, Poland, Pakistan, Egypt, and Yugoslavia—had been initiated to develop new transferable knowledge. The number of such projects increased to 49 by June 1966.



## **RECRUITMENT AND EXCHANGE PROGRAMS**

An increasing number of Americans are seeking professional experience in other countries through work assignments or study plans. The Welfare Administration maintains rosters of qualified social workers and serves as a clearinghouse for governmental, intergovernmental, and voluntary agencies seeking personnel. Through this service a number of social workers are finding opportunities as United Nations social welfare advisors, as Fulbright scholars and lecturers, as Peace Corps supervisors, as participants in regional seminars, or individually observing social welfare practice in other countries as part of an organized study program.

## **INTERNATIONAL MEETINGS**

The Welfare Administration assists the Department of State in formulating U.S. policy on social questions as a basis for participation in United Nations and other intergovernmental meetings. Such activities include preparation of materials, review and clearance of policy statements for the UN Economic and Social Council, the UN Children's Fund, the UN Social Commission, the UN Regional Commissions, the UN General Assembly, the UN Special Fund, the Technical Assistance Administration; materials for the Organization of American States' Economic and Social Council, the Committee on Social Cooperation, the Inter-American Children's Institute, and the International Labor Conference. Staff members serve on official delegations to the United Nations, the Executive Board of UNICEF, and on expert committees of the international agencies.

Service is also provided to major nongovernmental organizations, such as the International Conference of Social Work. Technical information and publications are provided, and there is continuing cooperation with the Department of State, the U.S. Information Agency, and voluntary groups in planning U.S. Government participation in such meetings.

## **EXCHANGE OF EXPERIENCE**

Social welfare programs vary widely in accordance with the resources, needs, and governmental structure of their respective countries. But there is slowly emerging a common core of services in the prevention and amelioration of social problems.

Moreover, many countries have developed innovations in administrative procedures and professional practice. For example, mobile units are a feature of some services in Western Europe. Integrated community social centers have long been used in the Middle East. Scandinavia has

developed innovations in all aspects of care of older persons, community home helps, special apartment facilities, and mobile medical care units. Wide use has been made of group services in countries where the economy and tradition make this an acceptable approach.

The experience of other countries can be helpful to the United States in social welfare areas it now seeks to expand. To benefit from these developments, however, requires study, evaluation, and experimentation beyond resources now being made available in the United States.

## CONCLUSION

Unprecedented growth of social welfare around the world since World War II has resulted in growing international exchange in social welfare as countries seek to benefit by the experience of other nations in meeting the welfare needs of their people. The United States, with its large public welfare program, its numerous schools of social work, and developing social research centers, has a major role to carry in this growing exchange.

Yet virtually no funds have been appropriated for these activities other than a foreign currency allocation for research in other countries. The mounting requests for services have been met with great difficulty due to lack of essential resources.

The White House Conference on International Cooperation held in 1965 urged that an adequate statutory base for the Welfare Administration's expanded international programs be obtained and that its cooperative activities be greatly strengthened. Similarly, the Conference on International Social Welfare Manpower, sponsored by the Departments of State and Health, Education, and Welfare and the Council on Social Work Education, urged accelerated efforts in the development of international social welfare manpower and a broadened base for international social welfare activities within the Department of Health, Education, and Welfare. Its report said, "We face a giant-sized task with pigmy-sized resources."

In order to use U.S. social welfare resources effectively in assisting other countries to develop their welfare services, train manpower, and cooperate in joint research of mutual advantage; and in turn to benefit U.S. social welfare by taking greater advantage of the knowledge and experience of other countries,

**The Advisory Council on Public Welfare urges that adequate authority and funds be provided to enable the Welfare Administration to carry increasing responsibility in expanding international social welfare activities.**



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*"One of the greatest obstacles to the improvement and expansion of public assistance and public welfare is the lack of understanding and support among community leaders and informed citizens. Many citizens who are otherwise interested in educational, charitable and civic matters simply turn their backs on public assistance . . ."*

FREDERIC L. BALLARD, JR., ESQ.  
Health and Welfare Council, Inc  
Philadelphia, Pennsylvania  
February 18, 1965

## **XII. THE PUBLIC AND PUBLIC WELFARE**

THE NATION'S public welfare programs, designed to compensate for many of the problems and failures of our social and economic system are, ironically enough, often held accountable for those problems and failures. The widespread lack of public understanding and acceptance of our society's responsibility has played a major role in slowing the growth and development of a public welfare system capable of adequately meeting needs and fulfilling its full potential for the prevention, as well as the amelioration, of much human suffering, maladjustment, and deprivation.

THEREFORE: *The Advisory Council on Public Welfare Recommends*  
*That*

**Public Welfare Agencies Continuously Seek Greater Public Understanding of Their Programs, Methods, and Objectives Through All Appropriate Means.**



The problems of the poor, the dependent young, old, and disabled have been more forcefully thrust into the forefront of public attention in recent years than at any other period of our history. Made more conspicuous than ever before by a burgeoning economic development and by the dedication of President Johnson's administration to make it possible for all citizens to participate in the American abundance—low income individuals and families occupy a central and highly visible place in the Nation's concerns.

There has probably never been a more opportune time for leaders in the public welfare field to present the case for improved programs: to educate and inform, and to win the increased public understanding and support they must have to be fully effective.

As in any area of public concern, the causes underlying public attitudes toward public welfare are deep seated and diverse. Side by side with American generosity exists American impatience with failure. This ambivalence is further heightened by the stubbornly continuing existence of poverty in the midst of ever increasing affluence.

The information function, long accorded a respected place in commerce, industry, labor, many other sectors of government, and in virtually every organized activity, has yet to win general acceptance as an essential element in the administration of public welfare.

The time is long overdue for expansion of information personnel in public welfare to inform the community of welfare's methods, goals, problems, and attainments and to involve community leaders and organizations more extensively in its efforts. This latter can be achieved through public hearings, use of advisory committees, educational programs, and use of all the communication media. Citizens in all segments of the community must be directly involved in this two-way effort.

The lack of adequate information programs in many State and almost all local welfare departments has a direct bearing on the quality and quantity of services: unless the public is kept fully and accurately informed, it cannot properly judge these programs. Where there is no informed basis for fair judgment, the natural tendency is to withhold or limit support.

Still another equally important aspect of the information function is its responsibility to the people which the public welfare program serves. The mere availability of income maintenance, medical assistance, or social services is not enough. Information about the gamut of services and how to go about getting them is essential. An inherent part of the right to basic social guarantees is the right to be informed about them.

This is a job calling for skills of a high and particular order since many who must be reached have long lived in isolation, despair, and distrust. Others, in generally more fortunate circumstances, are unaware that public social services may offer to them a needed resource.

The relationship of public understanding to the effectiveness of public welfare programs was a recurring topic in the deliberations of the Advisory Council on Public Welfare. The Advisory Council was impressed in its hearings that so many responsible citizens who already know a great deal about public welfare themselves made this subject a major focus of their testimony. Civic and business leaders, welfare officials, and other interested spokesmen devoted much attention to the need for more and better public welfare information programs and for greater citizen participation from all segments of the community. Again and again the point was made that this is a two-way street—from public welfare to the public and from the public to public welfare.

#### **STATEMENT OF THE NATIONAL PUBLIC RELATIONS COUNCIL OF HEALTH AND WELFARE SERVICES**

A thoughtful and detailed statement of the Ad Hoc Committee on Public Welfare of the National Public Relations Council of Health and Welfare Services, Inc., was presented to the Advisory Council during its New York meeting in February 1965. The Committee had conducted meetings over a 2-year period to consider ways of furthering public understanding of public welfare.

The Committee statement to the Advisory Council said, in part, "It is the conviction of this group that voluntary agencies need to play a prominent role in informing public opinion about public welfare. But this group also feels that government welfare itself can and should do a great deal more to heighten public understanding of its purposes and programs, causes of dependency, etc."

#### **Among the specific proposals made by the Committee:**

1. That the Federal Government take steps to encourage and assist State and local welfare departments to establish citizen advisory committees whose prime purpose would be to reflect public opinion and interpret welfare programs to the community. The Federal Government should also offer professional consultation on the recruitment, training, roles, and retention of volunteers.
2. That the Federal Government urge every State welfare department and local department in large urban areas to employ adequate staffs for public

information. The Federal and State departments, moreover, should have sufficient public information and education staffs of their own to provide consultation and field services to those State and local departments with limited resources.

3. That the Federal Government provide increased training opportunities, inservice and other, to workers in State and local welfare departments in such subjects as communications, public information, and community relations.

4. That increased incentive and consultation be given to State and local welfare departments to engage in information activities, such as the programs of visits to welfare clients by community leaders.

5. That, at the Federal level, ad hoc advisory committees be established from time to time to obtain authoritative and outside views of the department's programs and problems in communications, public information, and community relationships.

Many other spokesmen who appeared before the regional hearings of the Advisory Council cited these particular meetings as illustrative of an ideal vehicle for the involvement of citizens in consideration of the public welfare programs. For example, the Governor of the State of Oklahoma expressed his appreciation at the opportunity afforded the people of his State to voice their opinions.

Many speakers at the regional hearings urged more citizen participation at all jurisdictional levels—Federal, State, and local—pointing out that public welfare must have the support and understanding of an informed public and that such participation could help in developing numbers of interested and knowledgeable laymen. Most of those discussing greater citizen participation suggested representative advisory bodies, meeting regularly, with clearly defined roles. Among suggestions for membership on such bodies were elected officials, bankers, journalists, businessmen, and public welfare recipients, as well as representatives of other community interests.

Also a major channel (too little used, it was pointed out) consists of public welfare staff itself. Every member of the staff daily interprets the program and its objectives. This can only be done effectively if staff members are themselves fully informed and knowledgeable about the kinds of information most helpful in attaining increased public understanding.

The statement of Mr. Fred Rizk, an attorney and a member of Florida Welfare District Board No. 6, typified much of the prevailing opinion of the need for greater public knowledge of public welfare. Said Mr. Rizk:

*"I'm an attorney . . . about 15 years ago I was named as a member of the District Board. At first I didn't agree with anything.*



*My whole conception of public welfare . . . was just a means of getting a lot of people to get money out of the Government . . . they were no good . . . With the passage of time I began to really understand what people meant, their importance, and the community responsibility . . . I have become most interested and have taken a very active part. . . .*

*“ . . . I'm now fully convinced that public welfare is not merely restricted to recipients, it is for all of the people . . . In our own State meetings I have urged some sort of a program to acquaint the people in the street—they are the ones who determine final policy—to tell them this is not a giveaway program, this is not to encourage illegitimacy, this is not to saddle the burden of John upon Richard, but this is citizenship in its highest calibre. It is a responsibility as much as the churchgoer believes in things of that kind. The people must begin to realize it now. For that reason I suggested some time ago that we appoint an advisory committee not composed of professional people, but people in the public world—banker, newspaper man, public relations man—to tell us how best to bring the story to the people . . . You have to bring the story of public assistance in its proper light and bring the realization of it to the people . . . that the Federal Government has a duty, the community has a duty, and everyone has a duty to help. I think that has to be done before really effective measures can be taken.”*

## CONCLUSION

In its broad review of all aspects of the public welfare programs, the Advisory Council was struck by the widespread concern voiced by many well informed lay and professional people about the need for increased public understanding of the programs.

The Council is of the opinion that much greater emphasis must be given to the importance of interpreting the role and objectives of public welfare, to much broader citizen involvement, and to finding additional ways of making known the services already available.

To accomplish these objectives, the information function must be regarded as of equal importance to the other program responsibilities of public welfare. It is essential to sound administration.

**It is the opinion of the Advisory Council on Public Welfare that a clearly defined program of public interpretation and enlistment of wide community advice on and understanding of the public welfare program is fundamental and essential to more effective administration.**





### **XIII. IN THE MEANTIME**

Until the comprehensive and more adequate public welfare program envisaged in the preceding chapters of this report are in full operation nationwide, several interim measures are needed. Legislative action is necessary if successful experimental programs authorized by legislation scheduled to expire on June 30, 1967, are to continue and to meet some of the most urgent and serious gaps in assistance and services.

#### **EXPIRING TEMPORARY LEGISLATION**

In recent efforts to improve public welfare programs, several innovations were made possible through amendments to the Social Security Act. These new programs have been successful in the States which utilized them and warrant continuation on a permanent basis. The Council, therefore, makes the following recommendations:

**1. Temporary Legislation, Enacted in 1961, Which Extends the Aid to Families with Dependent Children Program To Include Needy Families with an Unemployed Parent, Should be Made Permanent and Mandatory Upon the States, and Provision Made for Covering More of the Unemployed Than Many of the States Now Include.**

The temporary nature of the Federal legislation has been a factor discouraging States from implementing the Federal law. Making the law permanent would offer the States a permanent opportunity, as they are able to respond, to help the children of the unemployed in their State. The legislation, in addition to making permanent the existing authorization, should also correct some of the weaknesses identified in the law. The definition of "unemployment" should be improved so as to require the inclusion of groups now excluded, such as the under-employed, part-time workers, and other groups now outside the definition in some State laws. This legislation was first enacted in 1962 and later extended to June 30, 1967 (Social Security Act Amendments of 1962, title IV, sec. 407).

**2. Temporary Legislation, Enacted in 1962, Providing AFDC Payments in Nonprofit Private Child Care Institutions for Children Whose Placement and Care is the Responsibility of the Public Welfare Agency, Should be Made Permanent.**

In 1962, the AFDC program was permanently extended to provide care in a foster family home under certain conditions for a child receiving AFDC, but only temporarily extended to include care in a nonprofit private children's institution.

The proposed permanent provision for foster care in a nonprofit private child care institution would assure the availability of this additional resource in planning for the use of the most appropriate facility for a particular child. As before, payments for maintenance, such as board and room, clothing, medical care, and other needs should continue to be made available to the institution, exclusive of overhead costs of the institution. (Title V, sec. 408, 3(a) and related provisions were extended in 1964 to June 30, 1967).

**3. Temporary Legislation, Enacted in 1962, Providing for Protective Payments to a Qualified Individual Interested in the Welfare of an AFDC Family When States Have Evidence That There is Inability To Manage Money and That Continued Money Payments Would be Contrary to the Benefit of the Child, Should be Made Permanent.**

The protective payment provision authorized by section 406(b)(2) has proved beneficial in the States which have utilized it. It offers a means, where necessary, of seeing that funds are used for the benefit of the child for whom they are provided. Similar permanent legislation was enacted in 1965 providing for the use of protective payments in the Old Age Assistance, Aid to the Blind, and Aid to the Permanently and Totally Disabled Programs. (Title IV, sec. 406(b)(2) is scheduled to expire on June 30, 1967.)

The proposed new legislation should delete reference to the imposition of criminal or civil penalties authorized under State law as a step that can be taken by a State under section 405.

**4. The Authorization for the Expenditure of Appropriated Funds, Provided in 1962 and Limited to Fiscal Years Prior to July 1967, to Support Demonstration Projects in State and Local Public Assistance Agencies so That New Methods, Techniques, and Practices Can be Tested, Should be Made Permanent and Substantially Increased.**

Flexibility in financing demonstration projects under the 1962 legislation, in which some requirements otherwise binding on public assistance agencies and programs can be waived, has made possible a wide range of efforts to demonstrate improved methods of administering public welfare programs and testing ways of strengthening services.

As of May 31, 1966, 129 demonstration projects had been approved in 43 jurisdictions (40 States, District of Columbia, Puerto Rico, and Guam). Although projects often have multiple goals and approaches, which makes precise classification difficult, they tend to fall into the following areas: 28 provide direct social services to families and individuals to enrich or strengthen personal and family life; 27 strengthen public welfare administra-

tion and stimulate program development; 9 experiment with new methods of administration, including new structural arrangements; 40 deal with staff recruitment and development, or seek to strengthen the relationship between public welfare and social work education; 22 involve new approaches that are specifically planned to encourage education and training for gainful employment; and 3 either relate to eligibility requirements or demonstrate the effect of raising AFDC assistance payments to levels of decency and health.

With increasing emphasis on the preventive aspects of dependency and the most constructive use of assistance and services available under public welfare, continuing experimentation and demonstration are needed as a basis for effective program planning and strengthened administration.

The amount that could be made available under the 1962 legislation to pay the State's share of the cost of demonstration projects—\$2 million annually from the amount appropriated for payments to States—should be increased very substantially to support experimental, pilot, or demonstration projects needed to assist in promoting the objectives of the public assistance programs. (Title XI, sec. 1115, authorized expenditures of \$2 million annually from the amount appropriated for payments to States through fiscal 1967. Use of funds for this purpose was prohibited by the Appropriation Act in 1965, but restored in 1966.)

#### **5. The Legislation, Enacted in 1961, Authorizing Temporary Assistance for United States Citizens and Their Dependents Returned From Foreign Countries, Should be Made Permanent.**

The addition of section 1113 to title XI of the Social Security Act in 1961 provided the first legislative base for the Department's activities administered since 1944 under intermittent appropriations from the President's Emergency Fund, and with the voluntary cooperation of State public welfare departments. Under this provision, temporary assistance is made available to United States citizens and their dependents identified by the Department of State as having returned, or been brought, from a foreign country because of destitution, war invasion, or similar crisis.

Although the need for such assistance has been relatively small during peacetime, the importance of its continuation as a standby measure, providing a basis for expansion in a period of emergency, as well as its value in international relations, has been especially useful in recent years. In addition to providing emergency assistance and needed services at major ports of entry and transportation back to the home State for needy Americans returned from overseas because they were ill or without funds, help has also been extended in recent months to American citizens and their dependents evacuated from the Dominican Republic, Cuba, and Vietnam.



Consideration should be given to combining the proposed permanent legislation with the permanent legislation passed in 1960 (Public Law 86-571) authorizing provision for reception and hospitalization at Saint Elizabeths Hospital, or elsewhere, of repatriated mentally ill Americans. (Title XI, sec. 1113, was temporarily added to the Social Security Act in 1961. This provision, which was to expire in 1962, was first extended to 1964, and subsequently to June 30, 1967. Public Law 86-571 is permanent legislation.)

**6. Temporary Legislation, Enacted in 1962, Which Provides Federal Participation in Certain Costs of Community Work and Training Programs Designed to Conserve and Develop Work Skills of the Unemployed Parent Receiving AFDC, Should be Improved and Made Permanent.**

The community work and training program was added to the Aid to Families with Dependent Children—Unemployed Parent Program in 1962 as part of the AFDC program so that the able bodied unemployed included under the program could have opportunity for useful work and training experience while receiving assistance. This program has proved highly useful in reaching many of the hard core or marginally employable unemployed, where family problems accentuate lack of job skills.

The community work and training program can provide training to unemployed fathers; and to mothers of older children who can safely be absent from the home, or in preparation for the time when the children will no longer be recipients of AFDC and the mother may be without support. The increased work capacity of unemployed employable recipients, or potential recipients, as well as public reaction against idle public assistance recipients who are considered able to work, make the continuance and expansion of this program highly desirable.

**To build into the public assistance program resources that will assure training or retraining of all employable recipients or potential recipients, the Advisory Council further recommends that:**

- a. a training component be required as part of the work program;**
- b. Federal financial participation be provided in the costs of project materials, supervision, training, and associated costs;**
- c. children 18 to 22 years of age be included where the State's AFDC program does not include this age group.**

Title IV, section 409, enacted in 1962, will expire on June 30, 1967. The Secretary is requested to submit to the President for transmission, prior to January 1, 1967, "a full report of the administration of the provisions of

this amendment . . . with his recommendations as to the continuation of and modifications in such amendment."

**7. With the Expiration of Public Law 87-274, as Amended, New Legislation Should Provide Authorization to the Welfare Administration for Grants-in-Aid and Project Funds for the Prevention, Treatment, and Control of Juvenile Delinquency.**

The problem of juvenile delinquency is so acute that every effort must be made to continue the steps already taken toward its prevention, treatment, and control and to accelerate and extend the programs found most effective. At the same time new methods of administering programs and of dealing with the variety of elements in the problem require appropriate new legislative authority.

**OTHER IMMEDIATE ACTIONS**

There are serious gaps in programs and services and restrictive provisions in State plans which limit the effectiveness of existing Federal legislation. In view of the high proportion of the cost of welfare programs paid by the Federal Government (more than one-half the cost in many States and as much as three-fourths in some), the Council believes that the Federal Government should have authority for determining the scope and dimensions of the program to a greater degree than is now possible under current provisions of law.

The Advisory Council recommends, therefore, that the following steps be taken immediately, even as planning goes forward to achieve the basic reforms proposed in earlier sections of this report:

**8. In Their State Plans for Public Assistance, States Should Be Required to Include All Types of Persons Eligible Under Federal Law.**

All groups of persons included within the limits of the Federal law would thus become eligible under State programs. For example, needy persons who meet all eligibility requirements but are not citizens of the United States or residents of a particular State or locality for a specified period of years would be included. (Federal law in the maintenance programs does not require but permits States to impose a residence or citizenship requirement as a condition of eligibility; under title XIX, however, no durational residence is permitted as a condition of eligibility for medical assistance.)

**9. Financial Aid Should be Available to a Low-Income Family Otherwise Eligible Whose Earnings From Employment are Insufficient to Provide the Basic Essentials of Living.**

Under title XIX, medical assistance can be provided to needy children under age 21 in such low-income families, but income maintenance is not necessarily available. Comparable provisions should be added to the other assistance titles.

**10. Exemption of a Reasonable Proportion of Earnings of Children and Relatives Caring for Them in an AFDC Family Should be Mandatory Upon the States; and Earnings Exemptions Should be Made Consistent for all Assistance Programs.**

Present provisions for disregarding earned income of children under the AFDC program are optional with the States. Earnings of their parents are not exempt. Moreover, the various provisions for exemption of earnings of public assistance recipients differ widely among programs and result in unnecessary administrative confusion and complexity.

**11. The APTD Program (TITLE XIV) Should be Broadened by Deleting the Eligibility Requirement of "Permanent and Total" Disability and by Extending the Program to Include Needy Disabled Children Under 18 Years of Age.**

Some disabled persons with significant impairments that are not permanent and total may be in dire need, but have a high potential for future independence if appropriate help is provided in time. (Individuals do not have to be "permanently and totally" disabled to qualify for OASDI benefits.)

Eighteen years is the lower age limit now specified in the law for APTD. Present measures do not meet the basic needs of many permanently and totally disabled children under 18, in families which do not qualify for assistance programs in their States.

**12. The Age Requirement for Old Age Assistance and Medical Assistance for the Aged (TITLE I) Should be Lowered From the Present 65 Years of Age to 60 Years of Age.**

Some adults under 65 are in equal or more desperate need than those who are older. There is no provision in the Federal law for aid to any adults under 65 unless they are needy because they are blind, permanently and totally disabled, or they are caring for children deprived of parental support because of death, incapacity, absence, or unemployment of a parent. (The OASDI program has lowered its age limit for widows from 62 to 60 years of age, and makes reduced benefits available to other women and to men at age 62.)

**13. The Age Requirement Under the AFDC Program Should be Extended to Include Children up to 22 Years of Age if They are Regularly Attending a School, College, or University, or a course of vocational or technical training and should be Made Mandatory Upon the States.**



This will make it possible for some youth now in school to complete their education, and others who have dropped out to return to school. (The OASDI program has been extended to a child up to 22 years who is attending an accredited school. Under title XIX, a State may not impose an age requirement that excludes any child under 21 regardless of school attendance, if the definition of a dependent child in title IV is otherwise met.)

**14. No Liens Should be Permitted to be Placed Against the Real Property of any Recipient of Federally Aided Public Assistance. Rather, All Federal Legislation in This General Area Should be Made Consistent With the Provisions of Title XIX.**

Under title XIX, no lien may be placed on property on account of medical assistance paid during the lifetime of the recipient. Adjustments or recoveries can only be made from the estate of an individual who was at least 65 when he received medical aid and then only after the death of his spouse, and after there is no surviving child who is under age 21, or is blind or permanently and totally disabled.

**15. Relatives Should not be Required to Support Those Needing Public Assistance Beyond Spouses and Parents of Minor Children.**

Federal legislation in this respect should be made consistent for public assistance payments with provisions of title XIX. This provision will greatly strengthen family life by removing points of friction in times of great family stress and strain.

**16. Without Any Change in the Present Grants-In-Aid Under Title V, Part 3, Costs of Certain Expenses in the Administration of Child Welfare and Youth Services (Including Professional Staff and Their Immediate Supporting Clerical Staff, and Costs of Professional Education) Should Be Financed Immediately on the Same Open-Ended Matching Basis as Provided for Comparable State Costs in the Administration of Title IV of the Social Security Act (Aid to Families With Dependent Children) and the Federal Government Should Establish Adequate Standards for All Such Services.**

This measure is urgently needed to equalize, to a greater degree, Federal responsibility in the provision of services to children and youth since the Federal Government now carries a far greater share in the costs of personnel and training in the administration of Aid to Families with Dependent Children than for Child Welfare Services.

**17. Provision Should Be Made for Increased Staff in Both the Headquarters and Regional Offices of the Welfare Administration Commensurate With the Increased Federal Responsibility Placed Upon It by Recent Legislation.**



Recent public welfare amendments and other Federal laws have resulted in greatly broadened public welfare responsibility in such areas as medical care, work and training, civil rights, and special services to families and individuals. Also, recent administrative changes and new policies to strengthen programs require additional staff to implement these new measures and increased responsibilities. Otherwise progress in attaining the specified goals will be hindered and delayed.

**18. To Accelerate the Trend Toward Comparability and Equity Among Public Welfare Programs From State to State, Any New Monies or Released Funds Due to Changes in Any Title of the Social Security Act, Prior to the Full Adoption of the Proposed New Method of Financing Described in Chapter IV, Should Contain a Maintenance of State Effort Provision Comparable to That in the 1965 Amendments to the Social Security Act.**

Future progress in public welfare is inextricably bound up with more adequate financing. The purposes of this report cannot be achieved through substitution of Federal dollars for State dollars but call for a continued Federal-State partnership in financial effort and program development. Services must be extended and strengthened. Thus, the base is strengthened for the goal of this total report—a comprehensive program of basic social guarantees.

## XIV. SUMMARY OF RECOMMENDATIONS

In setting forth a comprehensive program of Basic Social Guarantees, the Advisory Council on Public Welfare has presented its central recommendations in pages xi to xiv under the following headings:

1. General Proposal
2. Assistance Standards
3. Eligibility for Aid
4. Eligibility Determination
5. Child and Youth Welfare Services
6. Other Social Services
7. Legal Rights
8. Personnel
9. States' Share
10. Federal Share
11. Interim Option

In its report, the Advisory Council on Public Welfare adopted the device of presenting its major recommendations in each chapter (except Chapter I) dealing with substantive issues, together with varying numbers of supporting position statements in specific areas, as follows:

**Chapter II—The Advisory Council on Public Welfare Recommends a Minimum Standard for Public Assistance Payments Below Which no State May Fall.**

The Advisory Council on Public Welfare urges prompt, decisive action to bring the amounts of public assistance payments throughout this Nation up to a minimum American standard of health and decency.

**Chapter III—The Advisory Council on Public Welfare Recommends a Nationwide Comprehensive Program of Public Assistance Based Upon a Single Criterion: Need.**

The Advisory Council on Public Welfare strongly urges legislation that will make possible comprehensive public assistance programs based upon the only relevant eligibility requirement—need.

**Chapter IV—The Advisory Council on Public Welfare Recommends a Uniform and Simple Plan for Federal-State Financial Sharing in Costs of All Public Welfare Programs: The Plan Should Provide for Equitable and Reasonable Fiscal Effort Among States and Should Recognize the Relative Fiscal Capacity of the Federal and State Governments to Finance Adequate and Comprehensive Programs.**

It is the conviction of the Advisory Council on Public Welfare that the adoption of a single uniform formula, which reverses the responsibilities of

the Federal and State governments for basic financial support and which recognizes varying State fiscal capacities and effort, is essential.

**Chapter V—The Advisory Council on Public Welfare Recommends Prompt Extension of Coverage and Liberalization of Benefits Under the Social Insurance Programs.**

The Advisory Council on Public Welfare is of the opinion that the adequacy of social insurance benefits should not remain static but be kept in proper relationship to living costs and wage levels.

**Chapter VI—The Advisory Council on Public Welfare Recommends That Social Services Through Public Welfare Programs Be Strengthened and Extended and Be Readily Accessible as a Matter of Right at All Times to All Who Need Them. The Advisory Council Considers It Urgent That Public Welfare Programs Be Structured to Provide Ever More Effective Social Services, Medical Assistance, and Income Maintenance in Readily Accessible Local Centers, Properly Staffed and Organized. Increasingly, They May Become Associated with a Complex of Special Services.**

The Advisory Council on Public Welfare recognizes that child welfare services constitute a major component in the proposed comprehensive program of social guarantees.

The Advisory Council on Public Welfare believes that child welfare and youth services, as well as other services of public welfare agencies, should be available as a right, subject to enforcement in the courts.

**The Advisory Council on Public Welfare Recommends That the Present Work Training Programs Be Strengthened and Become Permanent Parts of the Public Welfare Structure.**

**The Advisory Council on Public Welfare Recommends That One Consolidated Program Within the Welfare Administration for the Prevention, Treatment, and Control of Juvenile Delinquency Be Established.**

The Advisory Council on Public Welfare urges that existing gaps in the medical assistance program be closed through Federal sharing in the cost of medical assistance for the medically needy between 21 and 65 years of age.

Although it is not required until July 1, 1975, the Advisory Council on Public Welfare believes it is not only feasible, but necessary, to advance the provision of dental services, particularly for children, to a much earlier date. The Advisory Council on Public Welfare calls upon the Welfare Adminis-

tration to exert strong leadership for the States in the development of family planning services as part of their medical and social services.

**Chapter VII—The Advisory Council on Public Welfare Recommends That All Public Welfare Programs Receiving Federal Funds Be Administered Consistent With the Principle of Public Welfare as a Right.**

The Advisory Council on Public Welfare further emphasizes that to achieve this recommendation Federal law and policy must be explicit in requiring that all Federally supported public welfare programs provide for:

A readily available and understandable application process for aid, whether for financial assistance of social services, including readily available and conveniently located public welfare offices in areas where people live;

Promptness in all administrative actions within specifically stated time limits;

A method or mechanism to assure legal representation for all who wish it, including payment for necessary costs of such representation;

An independent appeals system, with procedures and mechanisms so devised that decisions on appeals are truly independent judgments even when made within the framework of the administering agency;

An opportunity for aggrieved individuals to test the reasonableness of policies of the agency as well as the application of policies through the appeals process;

A positive program for informing recipients and applicants of their rights, utilizing all appropriate means of communication.

The Advisory Council on Public Welfare believes that there is great urgency for the emphatic assertion of public welfare's accountability for the protection of individual rights, and for the scrupulous observance of the individual rights of the people it serves.

**Chapter VIII—The Advisory Council on Public Welfare Recommends Prompt Action To Enable the Welfare Administration To Expand Its Support of All Phases of Recruitment, Education and Training for Welfare Personnel, Including Pre-Professional, Professional, and Advanced Social Work Education; Vocational Training for Sub-Professional Aides and Technicians; and Research and Development in More Effective Use of Available Personnel.**

The Advisory Council on Public Welfare urges that sharply increased Federal support of social work education be made available so that the knowledge and skills of social work can contribute fully to our National effort to assure the welfare of all the people.



**Chapter IX—The Advisory Council on Public Welfare Recommends That the Welfare Administration Be Enabled To Mount a Social Welfare Research Effort Commensurate in Size and Scope With the National Investment in Its Programs.**

The Advisory Council on Public Welfare urges that the present Division of Research be greatly strengthened as rapidly as possible so that it becomes a national social welfare research center which provides (a) a setting for research and development in the area of human resources, (b) a center for the dissemination of social information, (c) a facility for collection, storage, and retrieval of social statistics and other relevant information, (d) a stimulus to creativity and innovation in the monitoring and solving of social problems, and (e) a vehicle for continuing assessment of the social state of the Nation.

**Chapter X—The Advisory Council on Public Welfare Recommends That the Resources of Staff and Administrative Funds for the Welfare Administration and for State Public Welfare Agencies Be Expanded Commensurate With Needs for Staff and Facilities Necessary to Improve and Update Program Administration.**

It is the belief of the Advisory Council on Public Welfare that significant improvements in administration can be made by immediately furnishing the Welfare Administration adequate resources to exert maximum leadership within the framework of the existing structure.

**Chapter XI—The Advisory Council on Public Welfare Recommends That the International Office of the Welfare Administration Be Given Necessary Authority and Resources to Strengthen its Role As a Major Participant in International Social Welfare Programs.**

**Chapter XII—The Advisory Council on Public Welfare Recommends That Public Welfare Agencies Continuously Seek Greater Public Understanding of Their Programs, Methods, and Objectives Through All Appropriate Means.**

It is the opinion of the Advisory Council on Public Welfare that a clearly defined program of public interpretation and enlistment of wide community advice on and understanding of the public welfare program is fundamental and essential to more effective administration.

**Chapter XIII—Pending full achievement of the recommended comprehensive public welfare program, the Advisory Council on Public Welfare makes the following recommendations:**

**Temporary Legislation, Enacted in 1961, Which Extends the Aid to Families With Dependent Children Program to Include Needy Families With an Unemployed Parent, Should Be Made Permanent and Mandatory Upon the States, and Provision Made for Covering More of the Unemployed Than Many of the States Now Include.**

**Temporary Legislation, Enacted in 1962, Providing AFDC Payments in Non-profit Private Child Care Institutions for Children Whose Placement and Care is the Responsibility of the Public Welfare Agency, Should Be Made Permanent.**

**Temporary Legislation, Enacted in 1962, Providing for Protective Payments to a Qualified Individual Interested in the Welfare of an AFDC Family When States Have Evidence That There is Inability To Manage Money and That Continued Money Payments Would Be Contrary to the Benefit of the Child, Should Be Made Permanent.**

**The Authorization for the Expenditure of Appropriated Funds, Provided in 1962 and Limited to Fiscal Years Prior to July 1967, To Support Demonstration Projects in State and Local Public Assistance Agencies So That New Methods, Techniques, and Practices Can Be Tested, Should Be Made Permanent and Substantially Increased.**

**The Legislation, Enacted in 1961, Authorizing Temporary Assistance for United States Citizens and Their Dependents Returned From Foreign Countries, Should Be Made Permanent.**

**Temporary Legislation, Enacted in 1962, Which Provides Federal Participation in Certain Costs of Community Work and Training Programs Designed To Conserve and Develop Work Skills of the Unemployed Parent Receiving AFDC, Should Be Improved and Made Permanent.**

To build into the public assistance program resources that will assure training or retraining of all employable recipients or potential recipients, the Advisory Council on Public Welfare further recommends that:

- a. a training component be required as part of the work program;
- b. Federal financial participation be provided in the costs of project materials, supervision, training, and in associated costs; and
- c. children 18 to 22 years of age be included where the State's AFDC program does not include this age group.

**With the Expiration of Public Law 87-274, as Amended, New Legislation Should Provide Authorization to the Welfare Administration for Grants-in-Aid and Project Funds for the Prevention, Treatment, and Control of Juvenile Delinquency.**

**In Their State Plans for Public Assistance, States Should Be Required to Include All Types of Persons Eligible Under Federal Law.**

**Financial Aid Should Be Available to a Low Income Family Otherwise Eligible Whose Earnings From Employment Are Insufficient to Provide the Basic Essentials of Living.**

**Exemption of a Reasonable Proportion of Earnings of Children and Relatives Caring for Them in an AFDC Family Should Be Mandatory Upon the States;**

**and Earnings Exemptions Should Be Made Consistent for All Assistance Programs.**

**The APTD Program (Title XIV) Should Be Broadened by Deleting the Eligibility Requirement of "Permanent and Total" Disability and by Extending the Program to Include Needy Disabled Children Under 18 Years of Age.**

**The Age Requirement for Old Age Assistance and Medical Assistance for the Aged (Title I) Should Be Lowered From the Present 65 Years of Age to 60 Years of Age.**

**The Age Requirement Under the AFDC Program Should Be Extended to Include Children up to 22 Years of Age if They Are Regularly Attending a School, College, or University, or a Course of Vocational or Technical Training, and Should Be Made Mandatory Upon the States.**

**No Liens Should Be Permitted to Be Placed Against the Real Property of Any Recipient of Federally Aided Public Assistance. Rather, All Federal Legislation in This General Area Should Be Made Consistent With the Provisions of Title XIX.**

**Relatives Should Not Be Required to Support Those Needing Public Assistance Beyond Spouses and Parents of Minor Children.**

**Without Any Change in the Present Grants-in-Aid Under Title V, Part 3, Costs of Certain Expenses in the Administration of Child Welfare and Youth Services (Including Professional Staff and Their Immediate Supporting Clerical Staff, and Costs of Professional Education) Should Be Financed Immediately on the Same Open-Ended Matching Basis as Provided for Comparable State Costs in the Administration of Title IV of the Social Security Act (Aid to Families With Dependent Children) and the Federal Government Should Establish Adequate Standards for All Such Services.**

**Provision Should Be Made for Increased Staff in Both the Headquarters and Regional Offices of the Welfare Administration Commensurate With the Increased Federal Responsibility Placed Upon It by Recent Legislation.**

**To Accelerate the Trend Toward Comparability and Equity Among Public Welfare Programs From State to State, Any New Monies or Released Funds Due to Changes in Any Title of the Social Security Act, Prior to the Full Adoption of the Proposed New Method of Financing Described in Chapter IV of This Report, Should Contain a Maintenance of State Effort Provision Comparable to That in the 1965 Amendments to the Social Security Act.**

## **A P P E N D I C E S**





## **A. EXCERPTS FROM TITLE XI OF THE SOCIAL SECURITY ACT AS AMENDED IN 1962**

### **APPOINTMENT OF ADVISORY COUNCIL AND OTHER ADVISORY GROUPS**

"SEC. 1114. (a) The Secretary shall, during 1964, appoint an Advisory Council on Public Welfare for the purpose of reviewing the administration of the public assistance and child welfare services programs for which funds are appropriated pursuant to this Act and making recommendations for improvement of such administration, and reviewing the status of and making recommendations with respect to the public assistance programs for which funds are so appropriated, especially in relation to the old-age, survivors, and disability insurance program, with respect to the fiscal capacities of the States and the Federal Government, and with respect to any other matters bearing on the amount and proportion of the Federal and State shares in the public assistance and child welfare services programs.

"(b) The Council shall be appointed by the Secretary without regard to the civil-service laws and shall consist of twelve persons who shall, to the extent possible, be representatives of employers and employees in equal numbers, representatives of State or Federal agencies concerned with the administration or financing of the public assistance and child welfare services programs, representatives of nonprofit private organizations concerned with social welfare programs, other persons with special knowledge, experience, or qualifications with respect to such programs, and members of the public.

"(c) The Council is authorized to engage such technical assistance as may be required to carry out its functions, and the Secretary shall, in addition, make available to the Council such secretarial, clerical, and other assistance and such pertinent data prepared by the Department of Health, Education, and Welfare as it may require to carry out such functions.

"(d) The Council shall make a report of its findings and recommendations (including recommendations for changes in the provisions of the Social Security Act) to the Secretary, such report to be submitted not later than July 1, 1966, after which date such Council shall cease to exist."

“5. Appointment of Advisory Council and other groups: <sup>1</sup>

“The public welfare programs supported by the Federal grants-in-aid to the States are large and complex in their nature and must respond to problems which shift with the changing nature of our economic and social conditions. It is important, therefore, for the Department of Health, Education, and Welfare to have the advice and counsel such as can come from an independent review of these programs by distinguished citizens. Such persons, it can be expected, will be interested in the problems with which the programs must deal and the manner in which the programs are operating. For this reason, your committee recommends provisions directing the appointment by the Secretary during 1964 of an Advisory Council to review the administration of the public assistance and child welfare programs. The Council would make its report and recommendations to the Secretary not later than July 1, 1966, and would then go out of existence. The Secretary would be directed, however, to appoint succeeding advisory councils similarly constituted to study the programs and make reports, at appropriate intervals after the appointment of each.”

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<sup>1</sup> Public Welfare Amendments of 1962, Report (to accompany H.R. 10606), House of Representatives, Report No. 1414, p. 25.

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## B. ADVISORY COUNCIL ON PUBLIC WELFARE, 1964-1966

FEDELE F. FAURI, *Chairman*  
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ELIZABETH WICKENDEN  
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### **C. REGIONAL HEARINGS OF THE ADVISORY COUNCIL ON PUBLIC WELFARE**

To benefit from a broad range of views about the needs, problems, and future steps that should be considered in making the Federal-State programs of public welfare more effective, the Advisory Council on Public Welfare held a series of regional hearings during 1965 in various parts of the country: New York City, in February; Chicago, in March; Washington, D.C. in April; Atlanta, in May; Oklahoma City, in July; and San Francisco, in August.

The regional hearings were open to individuals and agencies who wished to testify on matters having a bearing on questions of broad national policy relating to public welfare. Participants were asked to submit statements in writing in advance of hearings where possible, so that the Council members could be prepared to discuss the questions raised or to develop further the issues presented. Each of the six regional hearings was chaired by a Council member, and two or three other Council members also attended. Although participants were advised of some of the major concerns of the Council, they were invited to raise any problem, to state views on any pertinent issue, and to outline recommendations.

Invitations were sent to a wide range of interested groups. Chairman Fauri emphasized that these hearings should not be directed solely toward the friendly social welfare groups. He said, "We were to get through the hearing process a cross-section of people who have different viewpoints. We want to be able to say in our report that these are conclusions based not only on what 12 people sitting around a table think, but what they conclude after having given an opportunity to various groups to express themselves."

Invitations to the regional hearings were sent to welfare, health, civic, religious, education, labor, and business organizations, and to other groups and individuals known to be interested in public welfare problems. Hundreds of invitations were sent to the following: children and youth organizations, civil rights groups, community or civic groups, voluntary family welfare agencies, foundations, health agencies, labor groups, board and staff of State and local public welfare agencies, assistance recipient groups, religious groups, research organizations, deans of schools of social work, tax-

payers organizations, women's organizations, State legislators, Governors, officials of municipal governments, newspaper editors, judges of children's and family courts, chambers of commerce, and such organizations as the National Association of Counties, American Medical Association, the Tax Foundation, the National Association of Manufacturers, and the National Industrial Conference Board.

No funds were available for participants to travel to these regional meetings, yet nearly three-fourths of those who participated assumed responsibility for their time and travel expense in order to present their views; about one-fourth submitted only written testimony. Nearly 5,000 pages of written and oral testimony were presented at the six regional hearings. (See chart A, page 132.)

Almost 350 persons participated in the 6 regional hearings. Some represented the views of several organizations or agencies. (See attached list.) Some of those who testified remained the rest of the day to hear other testimony. Some observers were also in attendance at each of the hearings; some staying the full 2 days of the hearing.

Participants came from 47 of the 54 States and other jurisdictions. (There were no participants from Alaska, Hawaii, Idaho, Mississippi, South Carolina, Vermont, and Guam.) The States with the largest concentration of participants were of course the States where the regional hearings were held. (See chart B, page 133.)

Participants in the regional hearings reflected the views of the following:

*43 National voluntary organizations, including:*

American Bar Association, AFL-CIO, American Dental Association, American Hospital Association, American Association of Retired Persons, American Home Economics Association, American Legion (National Child Welfare Commission), American Parents Committee, American Public Welfare Association, American Red Cross.

Child Welfare League of America, Council of Jewish Federations and Welfare Funds, Council on Social Work Education, Florence Crittenton Association of America, General Board of Christian Social Concerns of the Methodist Church, National Association of Counties, National Association for Retarded Children, National Association for Mental Health, National Association of Social Workers, National Committee for Day Care of Children.

National Council of the Churches of Christ in the U.S.A., National Council on Crime & Delinquency, National Council for the Spanish Speaking, National Education Association, National Federation of Settlements and Neighborhood Centers, National League for Nursing, National Public Relations Council of Health and Welfare Services, National Social Welfare Assembly, National Society for Crippled Children and Adults, National Travelers Aid, National Urban League.

Planned Population-World Population, Population Reference Bureau, Salvation Army.

*54 State voluntary organizations, including:*

Religious Organizations, State Conferences on Social Welfare, State Associations of County Directors, State Citizens Councils, State Chapters of the National Association of Social Workers, State Medical Associations, State Associations of Counties, State Councils of Health and Welfare Agencies, State Associations of Family Service Organizations, State Aging groups, State Leagues of Women Voters, and State Chambers of Commerce.

*60 State public agencies, including:*

State Directors of Public Welfare, Board Members of Public Welfare Agencies, State Correctional Institutions, State Public Health Agencies, and State Commissions on Aging.

*75 Local voluntary groups, including:*

Religious welfare agencies, Community Councils, Community Citizens' Associations, local chapters of the National Association of Social Workers, Family Welfare agencies, Children's agencies, Travelers Aid, Visiting Nurse, Urban League, Local Leagues of Women Voters, and Civil Rights Organizations.

*51 Local public agencies, including:*

Local Public Welfare Directors, Board Members of Public Welfare Agencies, Poverty Programs, Housing Authority, Health Departments, City Manager, and other local officials.

*20 Schools of Social Work*

*39 Assistance recipients or former recipients, including:*

Representatives of recipient groups, such as the Welfare Rights Organization of Oakland, California; the Federation for ADC of Detroit, Michigan; the AFDC Mothers Club of Miller, Indiana; the



ADC Mother's Group of McGregor, Iowa; the Twin Cities AFDC League of Minneapolis, Minnesota; the ADC Parents Association, Inc. of Denver, Colorado; and the ADC Council-YWCA of Des Moines, Iowa.

*Other Individuals, including:*

Governor, State legislators, newspaper editor, businessmen, hospital administrators, judges, juvenile court workers, probation officers, and church workers.

In preparing testimony to be presented to the Advisory Council on Public Welfare, many national and State organizations asked their local affiliates for their ideas and suggestions. Some State and local groups called special meetings and invited interested community groups and agencies to get their points of view and to formulate proposals to be included in the testimony submitted to the Advisory Council. Some national organizations also reproduced their testimony in their monthly bulletins to inform their membership of the recommendations being made. Thus, the regional hearings served to enlist even wider public consideration of public welfare issues of the day than evidenced by the participants in the regional hearings.

*Chart A*

REGIONAL HEARINGS ADVISORY COUNCIL ON PUBLIC WELFARE  
1965

Place of hearings	Total number partici- pating	State- ments only	State- ments and tes- timony	Testi- mony only	Volume of testimony (pages)		
					Total	Written	Oral
New York.....	68	26	31	11	1,325	789	536
Chicago.....	80	27	34	19	1,242	710	532
Washington.....	56	12	34	10	707	312	395
Atlanta.....	41	8	14	19	378	89	289
Oklahoma.....	52	17	14	21	376	110	266
San Francisco....	52	17	25	10	717	295	422
Total.....	349	107	152	90	4,745	2,305	2,440

# Chart B

## PARTICIPATION IN REGIONAL HEARINGS OF THE ADVISORY COUNCIL ON PUBLIC WELFARE, 1965 (by State)

State	Number of partici- pants	State	Number of partici- pants
Alabama	7	Nebraska	1
Alaska	—	Nevada	3
Arizona	1	New Hampshire	2
Arkansas	1	New Jersey	6
California	28	New Mexico	4
Colorado	7	New York	36
Connecticut	7	North Carolina	3
Delaware	4	North Dakota	1
District of Columbia	28	Ohio	8
Florida	4	Oklahoma	25
Georgia	30	Oregon	4
Hawaii	—	Pennsylvania	12
Idaho	—	Rhode Island	4
Illinois	45	South Carolina	—
Indiana	6	South Dakota	2
Iowa	4	Tennessee	1
Kansas	2	Texas	7
Kentucky	1	Utah	3
Louisiana	4	Vermont	—
Maine	4	Virginia	1
Maryland	6	Washington	4
Massachusetts	5	West Virginia	2
Michigan	8	Wisconsin	1
Minnesota	5	Wyoming	1
Mississippi	—	Guam	—
Missouri	4	Puerto Rico	1
Montana	1	Virgin Islands	1

## PARTICIPANTS IN THE REGIONAL HEARINGS OF THE ADVISORY COUNCIL ON PUBLIC WELFARE <sup>2</sup>

BERNICE W. ALEXANDER, *Freeholder*  
Bergen County, N.J., for  
N. J. Assn. of Freeholders, and  
National Association of Counties

HERSCHEL ALLEN, *Regional Director*  
Illinois Department of Children  
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Chicago, Ill.

MARY LOUISE ALLEN, *Executive Director*  
Florence Crittenton Association of  
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Alabama Chapter  
National Association of Social Workers; and  
Director, Social Service  
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AMERICAN PUBLIC WELFARE ASSOCIATION  
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National Retired Teachers Assn.  
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Health and Welfare Council, Inc.  
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National League for Nursing, and  
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HON. HENRY BELLMON  
Governor of Oklahoma

PROF. STEPHEN BENEKE  
Legal Aid Society Branch  
Howard University  
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---

<sup>2</sup> Includes those who appeared and those who filed written statements but did not attend. Titles as given at time of appearance.

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Committee on Social Issues and Policies  
National Social Welfare Assembly  
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DR. MADISON BROWN, *Associate Director*  
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MARIE YOUNGBERG, *National Director*  
Service to Military Families  
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Washington, D.C.

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Lake County Department of Public Welfare  
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## D. SELECTED STATISTICAL DATA AVAILABLE FROM THE DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE, JUNE 1966

Regular statistical series are available covering the various aspects of federally aided public assistance programs and general assistance, and a range of special program areas.

*Welfare in Review* published by the Division of Research of the Welfare Administration carries many of these series monthly and also issues a statistical supplement in January of each year.

*Indicators* issued by the Department of Health, Education, and Welfare also publishes regular statistical series monthly covering many HEW programs including public assistance.

The Bureau of Family Services of the Welfare Administration issues regular statistical series in the following areas:

### 1. RECIPIENTS

Numbers

Characteristics: demographic, family, and individual conditions and needs, program eligibility

Financial circumstances: total requirements, sources of income, and amount of requirements met by the income

### 2. ASSISTANCE AND SERVICES

Financial assistance including maintenance and vendor medical payments.

Social services provided by public welfare agencies and by other public agencies providing income maintenance and social services.

### 3. RELATION OF PUBLIC ASSISTANCE TO OTHER INCOME MAINTENANCE AND SERVICE PROGRAMS

Old Age, Survivors, and Disability Insurance (OASDI)

Manpower Development and Training (MDTA)

Vocational Rehabilitation (VRA)

Finances

Unemployment Compensation

### 4. PERSONNEL

Number; salary data

Functions performed

Workloads



## 5. FISCAL ASPECTS OF PUBLIC ASSISTANCE PROGRAMS

- Costs of the programs
- Financial assistance
- Administration
- Social services training
- Sources: Federal, State, and local
- State and local tax sources used to finance public assistance

## 6. ASSISTANCE STANDARDS

- Cost standards
- Maximums and limitations

The Children's Bureau of the Welfare Administration issues regular statistical series in the following areas:

### 1. CHILD WELFARE

- Children served by public welfare agencies and institutions
- Adoption of children
- Child welfare expenditures by State and local public welfare agencies
- Children receiving casework services
- Financing public child welfare services
- Child welfare statistics

### 2. CHILD HEALTH

- Maternal and infant mortality
- Death of premature infants in the United States
- Childhood mortality from accidents
- Public programs for crippled children
- Perinatal, infant, childhood, and maternal mortality
- Cost of services to crippled children
- Children served by the crippled children's program
- Maternal and child health services
- Crippled children's program status

### 3. JUVENILE DELINQUENCY

- Juvenile Court statistics
- Facts about public State training schools for juvenile delinquents
- Public institutions for delinquent children

### 4. PERSONNEL

- Personnel in public child welfare programs
- Educational level in the public child welfare program
- Training under the maternal and child health and crippled children's programs

Publication lists, which include special studies and reports as well as the items listed above, are available on request.















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